Austria Sch 20	Indonesia Rp 3100	Philippines Pes 20
Bahrain Din 0.650	Israel IS 3.50	Portugal Esc 100
Belgium BFr 45	Italy L 1800	S. Arabia Rls 6.00
Canada C$1.00	Japan Y600	Singapore S$4.10
Cyprus C£0.75	Jordan Fils 500	Spain Pta 125
Denmark DKr 8.00	Kuwait Fils 500	Sri Lanka Rup 30
Egypt £E1.50	Lebanon £L 25.00	Sweden SKr 8.00
Finland Fmk 7.00	Luxembourg LFr 45	Switzerland SFr 2.20
France Fr 6.50	Malaysia [illegible]	Taiwan NT$ 65
Germany DM 2.20	Mexico Pes 300	Tunisia Din 1.375
Greece Dr 80	Morocco Dh 6.00	Turkey L 350
Hong Kong HK$ 12	Netherlands fl 3.00	U.A.E. Dh 6.50
India Rup 15	Norway NKr 7.00	U.S.A. $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,125 — Monday January 5 1987 — D 8523 B

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Wall Street awaits a belated call from Santa Claus, Page 14

World news

Libyan jets bomb southern Chad

Libyan aircraft carried out bombing raids over southern Chad in retaliation against a two-pronged offensive launched by Chad government forces.

The French Defence Ministry confirmed that four Libyan MiGs had struck near Arada in the east of the country and below the 16th parallel. It was the first time Libyan aeroplanes had crossed the parallel since the raid on N'Djamena, the capital, last February. Page 2

China warns students

China's state-controlled media stepped up attempts to subdue the student democracy movement by suggesting that the campaign was posing a challenge to the authority of the ruling Communist Party. Page 2

Afghan peace plan

Soviet-installed Afghan leader Maj. Gen. Najibullah said the unilateral ceasefire he announced last week would continue for six months and might be extended if anti-communist guerrillas responded favourably. Page 2

Israeli gunship raid

Israeli helicopter gunships attacked houses in southern Lebanon belonging to guerrilla groups including the radical Shia Moslem Hizbollah. Israel claimed the houses were used as assault bases.

Peretz resigns

Israeli Interior Minister Rabbi Yitzhak Peretz resigned in protest at a court ruling that he must recognise a Christian-born immigrant convert as Jewish. Page 2

Soviet minister out

Soviet Health Minister Sergei Burenkov has been removed after failing to raise the pay of seven million health workers, including doctors, on time. He was heavily rebuked by the Council of Ministers. Page 3

Moslems sign pact

Moslem rebels leading a 17-year armed struggle for self-determination in the Philippines signed a peace agreement to accept "full autonomy" as opposed to independence for Mindanao and four other islands. Page 2

Abidjan search

Investigators searched through thick jungle outside Abidjan, Ivory Coast, for the flight recorders of a Brazilian airliner which crashed on Saturday, killing 49 of the 51 passengers and crew. One of the two survivors was said to be out of danger.

Sind governor quits

Jehandad Khan, governor of Pakistan's troubled Sind province has resigned in the wake of last month's ethnic riots which left 186 people dead in Karachi.

Spanish flights hit

Spain's state-owned domestic airline Aviaco has cancelled 73 of 104 flights scheduled for today because of a second 24-hour strike by ground staff over a pay claim. Some 5,000 passengers will be affected.

Iran troops 'gassed'

Five Iranian soldiers have died in a Tehran hospital from the effects of Iraqi poison gas attacks in the Gulf War front line, an Iran spokesman claimed.

Hurricane havoc

About 2,000 people were left homeless and millions of dollars worth of damage was caused to buildings and crops by a hurricane that hit the Cook Islands in the Pacific.

Pope's plea to rebels

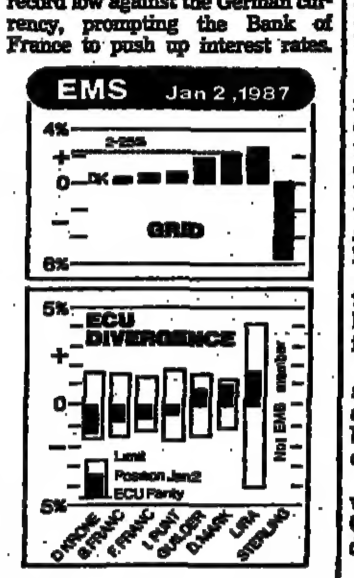
Pope John Paul appealed to South African-backed Renamo rebels in Mozambique to release three Italian missionaries seized in an attack on their mission at Mualama in the north.

Business summary

GMAC to raise $1bn in Euronotes

EUROMARKETS: A new debt instrument seems set to play an important role in the Euromarkets this year following an announcement by General Motors Acceptance Corporation, financing subsidiary of the US carmaker, of a $1bn fund raising programme. Page 14

EUROPEAN Monetary System: The D-Mark's sharp rise against the US dollar caused further strains within the EMS last week. As a result of investors switching funds into the D-Mark, the French franc fell to a record low against the German currency, prompting the Bank of France to push up interest rates.



The Danish central bank was also active, giving support to the krone and temporarily arresting its decline. Renewed D-Mark strength and little immediate prospect of the trend being reversed gave rise to speculation about the possibility of a realignment after the West German general election later this month. The D-Mark ended at 66 of its maximum divergence spread compared with 50 p.c. the previous week.

The chart shows the two constraints on European Monetary System exchange rates: The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

US NAVY is expected to decide soon whether to go ahead with a common mission equipment order worth up to $3bn for which the only bidder is a consortium set up by GEC of the UK and Rockwell of the US. Page 5

GUINNESS, UK brewing and leisure group, is poised to go on to the legal offensive in an attempt to quell the speculation surrounding its actions during last year's contested £2.5bn ($3.7bn) takeover of Distillers. Page 14

IRELAND faces a budget deficit of I£1.4bn ($1.9bn), equivalent to 8.5 per cent of the gross national product, leaving the shaky Fine Gael-Labour coalition committed to a tough budget on January 28 that could prompt a general election. Page 2

UK: Predictions of a flurry of activity in the UK economy early this year followed by restraint after a general election are made in two New Year economic reviews published today. Page 6

JAPAN'S electronics industry, second-largest in the world, is in decline because the stronger yen is curbing exports. Page 3

ARGENTINE negotiators hope to settle details quickly with the IMF for a $1.2bn loan. Page 2

LAWRENCE CHU, president of Chinese Manufacturers' Association, one of Hong Kong's most powerful business groups, has been charged with conspiracy to defraud the Wing On Bank of sums amounting to about HK$60m (US$7.7m). Page 18

CSX Corporation, transportation and energy group, has signalled the beginning of the annual US corporate results season by announcing a 5.4 per cent dip in its 1986 net income to $418m, or $2.73 per share. Page 18

Chirac faces trial of strength with left-wing unions

BY DAVID HOUSEGO IN PARIS

THE Government of Mr Jacques Chirac, the French Prime Minister, faces a major test of strength with the main left-wing unions this week amid conflicting reports that the 18-day-old railways strike was beginning to crumble.

Officials of the French railways, SNCF, said about 280 trains left or arrived in Paris yesterday and Sunday mainline services were operating at between 40 per cent and 50 per cent of normal. Riot police removed pickets who were blocking the passage of trains, easing holidaymakers' return journeys.

However, the strikers' informal national co-ordination committee called for a further intensifying of the strike and denied the SNCF's claims of a return to work. By yesterday afternoon about 10 of the 94 train depots had voted to halt the strike – although these included large centres such as Dijon.

In a calculatedly political move, the Communist-led CGT union – the largest industrial union – has called for a widening of the action.

This coincided with CGT calls for strikes in the electricity and gas industries, the Paris metro and suburban train network, and in the docks.

The pro-Socialist CFDT union – which has been embarrassed by the Communists' attempts to turn the dispute into a political conflict – served notice of strike action on the Paris metro on Tuesday.

How widespread the disruption is will depend largely on the outcome of negotiations on pay and conditions in a number of public-sector organisations early in the week. The Communists in particular, will adjust the tempo of their action to the outcome of the talks and the mood among the rank and file.

By contrast, Mr Jacques Chirac, the Prime Minister, indicated at the weekend that he would not allow the Government's anti-inflationary objectives to be put at risk and that he was prepared for a "long and hard conflict" if necessary.

Ministers, however, took comfort yesterday from the signs of a return to work among the drivers. They were also privately pleased that the Communists have decided to move up front in the dispute.

The Government believes that this will help turn public opinion against the strike. It is also counting on the strike losing steam through the weariness of the strikers who have now been out of work for 18 days.

A major factor in the Government's decision to adopt a tough stance is fear that any sign of weakening could precipitate further pressure on the franc. The Bank of France increased its intervention rate – the leading money market rate – by ¾ per cent on Friday to 8 per cent after the franc slipped to FFr 3.312 against the D-Mark or less than 2 centimes above its floor in the EMS of FFr 3.3303.

While being prepared for further negotiations in the rail dispute over working conditions, the Government has declined further talks on pay or the definition of a new pay structure. On pay the SNCF has announced a package that provides for a 3.08 per cent increase in the railway's wage bill – or marginally above the Government's 3 per cent limit for the public sector.

Unions argue that this allows for only a 1.7 per cent flat increase for lower-paid workers – or below this year's anticipated inflation rate.

After President Mitterrand received a delegation of striking rail workers, last week, Socialist leaders over the weekend condemned the Government for its refusal to negotiate. Ministers have been equally indignant that Mr Mitterrand intervened in the dispute in a way they see as going beyond his constitutional role.

Though the CGT wants to transform the rail strike into an important public-sector conflict, both it and the other unions are embarrassed that the pace of action has so far been more determined by the rank and file.

Whites plan challenge to Pretoria on censorship

BY ANTHONY ROBINSON IN JOHANNESBURG

SOUTH AFRICA'S white opposition parties say they will defy the Government's censorship rules when campaigning in the country's general election, due to take place later this year.

In a rare display of unanimity, leaders across the South African political spectrum maintained this weekend that they would refuse to submit speeches or election pamphlets to government censorship, first imposed in June last year. The Government last week introduced further curbs, affecting in particular coverage of black revolt.

In his New Year address, President P. W. Botha said that a general election for the white chamber in the country's parliament, which has separate houses for Indian and coloured (mixed race) representatives, would be held within the next few months. The date will be announced when parliament reassembles on January 30.

The Government's handling of growing opposition from black South Africans, marked by violent deaths of more than 2,250 people since October 1984, is expected to be a major issue in the campaign.

Mr Stoffel Botha, the Minister of Home Affairs, who is in charge of applying the censorship regulation, has made it clear that parliamentary candidates will be bound by the new restrictions. "This is a democratic country where parties are allowed to say what they like," he said, adding that this would have to be "within the limits of the law."

The rules – carefully drafted to avoid loopholes which could be exploited in the courts – require politicians to submit their speeches, pamphlets and statements for censorship, except when covered by parliamentary privilege. Legally, only 35 government ministers and deputy ministers are exempt from the restrictions.

The ostensible aim of the regulations was to prevent left-wing organisations such as the banned African National Congress (ANC) or the United Democratic Front (UDF) from carrying out what the Government claims is a "revolutionary onslaught" aimed at toppling it by force.

However, opposition parties across the spectrum of white politics – from the Progressive Federal Party on the left to the Herstigte Nasionale Party of the far right – believe the restrictions are also aimed at curbing public debate in the run-up to an election and especially at restraining attacks on the Government by its vociferous right-wing Afrikaner critics.

Mr Colin Eglin, leader of the PFP, said: "It is like having to fight with your hands tied behind your back and the referee biased in favour of the other side."

He added that the new censorship rules had been introduced in a country where the Government, through its control of state radio and television, was already in a position to control and manipulate news and views.

Non-white issues in whites-only poll, Page 2

Fears over oil price expected to hit North Sea licensing

BY LUCY KELLAWAY IN LONDON

THE TENTH round of North Sea offshore licensing looks likely to be a disappointment for the UK Government, with the number of blocks awarded falling well short of its target of between 50 and 60.

Oil companies, which have been studying the 127 blocks on offer since the round was announced in July, now believe that the likely number of licences granted could be as low as 30.

This expected lower level of awards is a result of a poor response by oil companies, which are pessimistic about the future level of oil prices. They have also been concerned about the quality of the acreage on offer.

This lack of interest will be embarrassing for the Department of Energy, which decided to press ahead with the round in spite of the collapse in the oil price from $30 a barrel a year ago to about $18 now. It has argued that the North Sea remains a promising area for oil exploration and has urged the industry to maintain its levels of investment.

Compared with the 130 companies that applied for acreage in the ninth round in 1985 – many of which were not oil companies – this year applications are likely to be limited to the big oil companies.

Blocks are likely to be awarded with lower drilling commitments than in previous years, when companies offered to drill up to four or five wells on a block. This year commitment wells are likely to be limited to a maximum of two, or to no more than can be justified on strictly technical grounds.

More than 90 of the blocks on offer are those on which licences have expired. Of these, more than 50 have already been drilled on. One major oil company said that it had examined all the blocks closely and found "many fewer than 20 blocks of any interest."

Mr Arnaud Rousseau, managing director of Elf UK, said that although his company would put in for a handful of blocks, "we haven't found signs of anything that looks more than marginal."

The recent rise in the oil price to about $18 from $15 a month ago is not expected to make much difference to the response to the round.

Even if oil prices remain at present levels until applications close on February 17, the larger companies, which are interested in the price in five to 10 years when the oil from the new blocks starts to flow, say they will not necessarily put in any extra applications.

Brazil tells Mellon to quit after credit line refusal

By Ivo Dawnay in Rio de Janeiro

THE BRAZILIAN Government has ordered Mellon Bank of Pittsburgh to wind up its operations in the country in retaliation for the bank's refusal to continue its short-term credit lines valued at about $150m.

The move, coming shortly before the resumption of rescheduling negotiations on Brazil's $110bn foreign debt, could have an important psychological impact on the attitude of other second-ranking commercial creditor banks of which Mellon is a prominent member and opinion former.

An order to quit the country was delivered to Mellon's Rio de Janeiro representative office in a letter last week. Details have not been released, but it is clear that the motive stemmed from the authorities' anger over the bank's approach to the roll-over of $31bn in commercial loans and interest, falling due in 1985–86, which were finally agreed last September.

While Mellon, along with most other banks accepted a roll-over of these medium and long-term lines, it alone chose to halt short-term credits – this represented the bulk of its exposure.

Technically, these short-term credits – currently totalling about $9bn – were not part of the package and are viewed as "voluntary" lending. But, in practice both the Government and negotiators for the creditor banks have always considered their continuation as central to the spirit of the main negotiation.

It is widely reported that Mellon underwent considerable arm-twisting both from other creditor banks and the US Federal Reserve to keep open the short-term lines, but chose to ignore the pressure.

Last month, Mr Fernao Bracher, Brazil's central bank president, angrily denounced the decision as forfeiting the bank's right to be taken seriously in the international marketplace. "Mellon is a bank that has not grown up to its responsibilities," he said.

Mellon's withdrawal and subsequent "punishment" by the Brazilian authorities will be examined closely by other second ranking non-money centre creditors, many of which would dearly love to write-off their exposure to Brazil.

Reactions among the foreign banking community in Brazil differed widely over their possible responses, however. One banker said that the government's tough line would further alienate creditors already dubious about granting a multi-year rescheduling agreement which looks likely to involve the provision of new money to cover future repayments of interest and principal.

Continued on Page 14

Reagan warns critics over budget deficit

BY LIONEL BARBER IN WASHINGTON

THE ARGUMENTS over President Ronald Reagan's trillion dollar budget got underway yesterday although leading Democrats were careful to steer clear of confrontation. The budget will be presented to Congress today after an 11-week adjournment in which the US political landscape has been transformed by the Iranian arms scandal.

The $1.0243 trillion (million million) budget, which projects a deficit of $107.8bn, just below the target set by law, has no chance of being approved by the 100th Congress since it is controlled for the first time in six years by the Democrats.

The question is whether the President and Congress will co-operate to agree to a budget or whether Congress and the White House will succumb to partisan in-fighting over the next two years before the presidential election.

Mr Reagan, 75, who went into hospital yesterday for tests to see if he has a recurrence of colon cancer will undergo prostate surgery early today in Washington. Before entering hospital, he warned law makers in his weekly radio address: "You can't have it both ways. You cannot decry deficits and then pass budget-busting legislation."

Leading Democrats yesterday steered clear of confrontation in an effort to show their willingness to co-operate with the White House.

Sen. Robert Byrd, the incoming Senate majority leader, called for a public debate on the budget. Sen Lawton Chiles, the incoming chairman of the Senate budget committee, said that he was seeking a meeting between congressional leaders and the White House to see if a budget could be drawn up to balance the budget over the next five years.

Mr James Miller, Mr Reagan's budget director, defended the $107.8bn deficit for fiscal 1988 as realistic. But, in a television interview, he did not disagree that his deficit reduction package assumed a 3.2 per cent real growth in the current calendar year and that this figure could fall by 1 per cent depending on a turnround in the US trade deficit.

Mr Jim Wright, the new Speaker of the House of Representatives, said that House Democrats would immediately pass an omnibus trade bill rejected by the White House last year, as a first step towards a "comprehensive trade bill."

Mr Reagan's budget contains a 3 per cent real increase in defence spending for each of the next five years and cutbacks in domestic entitlement programmes, education, transport and farm aid.

Four small benign-appearing polyps were removed from President Reagan's colon during his latest post-cancer surgery check-up, White House physician Dr John Hutton said today. He added that the growths were "similar to polyps found during previous examinations and show no evidence of a recurrence of the cancer found in July 1985."

Investors urged to sell Barclays' shares

BY DAVID LASCELLES IN LONDON

BARCLAYS de Zoete Wedd (BZW), the newly-formed investment banking arm of the Barclays Bank group of the UK, is advising its clients to sell their shares in the clearing bank parent because of its deep-rooted loan problems and poor profit prospects.

In their first comprehensive research report on bank's shares, BZW's analysts say "There is something wrong with Barclays" and forecast that its 1987 earnings growth will be the slowest of the "big four" UK clearing banks.

The report blames the bank's poor performance on an exceptionally high level of bad debts in the UK and abroad, accumulated because of a management structure that is too decentralised.

It says that Barclay's profit performance "is unlikely to be exciting for some time, and it is worth remembering that problems of loan quality typically take years rather than months to eradicate."

The report forecasts that Barclay's earnings per share this year will be up 7 per cent, compared to 9 per cent at NatWest, 17 per cent at Lloyds and 40 per cent at Midland. Because of this gloomy outlook, BZW is advising its institutional clients to take advantage of any strength in Barclays shares to sell them and switch to Lloyds Bank or NatWest Bank instead.

The financial research team at BZW consists largely of analysts hired away from Greenwell & Co, the stockbroking firm now owned by the Midland Bank.

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Treasury – 55 Gracechurch Street, London EC3V 0BN. Tel: 01-280 3318 (Enquiries)

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OVERSEAS NEWS

Ireland misses budget targets by wide margin

BY HUGH CARNEGY IN DUBLIN

IRELAND HEAVILY overshot its targets for the current budget deficit and exchequer borrowing last year, leaving the shaky Fine-Gael-Labour coalition committed to producing a tough budget on January 28 which may not get through Parliament, precipitating a general election.

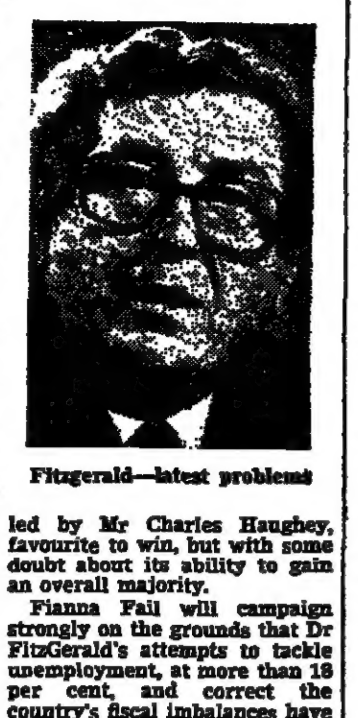
The budget deficit of Ir£1.39bn (£1.32bn) was equivalent to 8.5 per cent of gross national product, compared to a target of 7.4 per cent. Total exchequer borrowing was Ir£2.14bn, or 13 per cent of GNP, up from a target of 11.8 per cent. Foreign borrowing totalled Ir£812m.

The results were significantly better than anticipated at the nine-month stage, thanks in part to a big saving on foreign debt servicing, but the Department of Finance confessed that it amounted to "a substantial overrun on a substantial deficit."

The improvement will ease the coalition's budget problems slightly. But, with little room to expand an already high tax base, it will still have to find big spending cuts to achieve its already published overall targets for this year of a deficit of 7.4 per cent of GNP and borrowing of 11.8 per cent.

Dr Garret FitzGerald, the Prime Minister, is determined that the coalition will overcome differences between Fine Gael and Labour ministers to present the budget. But, with the Government in a narrow minority in the Dail (lower house), there is a real prospect of its defeat on the budget and an election in late February, nine months early. Whenever it comes, the election is sure to be dominated by the economy.

Opinion polls show the main opposition party, Fianna Fail, led by Mr Charles Haughey, favourite to win, but with some doubt about its ability to gain an overall majority.



Fitzgerald—latest problems

Fianna Fail will campaign strongly on the grounds that Dr FitzGerald's attempts to tackle unemployment, at more than 18 per cent, and correct the country's fiscal imbalances have failed. Embarrassingly, the coalition's own economic plan aimed to have the budget deficit down to 5 per cent of GNP by the end of 1987 and exchequer borrowing down to less than 10 per cent. The total national debt now amounts to 145 per cent of GNP.

Dr FitzGerald argues that the economy is still suffering from the excesses of Mr Haughey's previous spells in office when budget targets went haywire and borrowing spiralled. A parital reflection of this was that in 1986, the non-interest component of exchequer borrowing was only 2 per cent of GNP.

Libyan aircraft launch raids on Chad

By David Housego in Paris

Liban aircraft yesterday carried out bombing raids over southern Chad in retaliation against the two-pronged offensive launched by Chad government forces to end Libyan occupation of the north of the country.

The French Ministry of Defence yesterday confirmed that four MiG-23s of the Libyan air force had struck near Arada in the east of the country and below the 16th parallel. It is the first time that Libyan planes have crossed the 16th parallel since the raid on N'Djamena, the capital, in February.

The Chad embassy in Paris also said that Libyan fighters had later attacked the Oum-Chalouba-Kalait zone just south of the 16th parallel. This is believed to have been a military staging post for the Chadian advance to the north.

France has established an air defence system, composed of radar stations, missile batteries, and Jaguars nd Mirage F-1 fighters, designed to prevent any incursion by the Libyan airforce beyond the 16th parallel.

The Libyan action may draw reprisals from France which has declared that any Libyan attack south of this line would provoke a response.

The bombing raid follows an apparently successful initial offensive by Chad government forces. On Friday they captured Fada, an oasis in the east of the country and north of the 16th parallel, which was garrisoned by 1,000 Libyan troops.

Kabul plans six month ceasefire

By Mohammed Aftab in Islamabad

THE Soviet-installed Afghan leader Maj Gen Najibullah has said that the unilateral ceasefire in the war will continue for six months and may be extended if the anti-communist guerrillas respond favourably.

Mr Najibullah announced that "if the proposed ceasefire brings about good results, the limited forces of the Soviet Union, now in Afghanistan, will leave the country without delay."

The proposal, even if it is only a propaganda ploy, will have to be considered seriously because for the first time it is tied to a lengthy ceasefire period and the withdrawal of 115,000 Soviet troops from Afghanistan.

The January 1 offer which only mentioned "a temporary ceasefire" did not indicate its length, or its link to the withdrawal of Soviet troops.

The guerrillas fighting Soviet and Afghan Government troops, have rejected Mr Najibullah's ceasefire offer calling it "a sham and a deception." "The only way to ensure peace in Afghanistan is an immediate and unconditional Soviet troops withdrawal," the alliance of seven major guerrilla groups said.

Aid for Cook Islands

NEW ZEALAND is flying emergency food, medical supplies and relief crews to the Cook Islands where more than 2,000 people on the main island Raratonga have been made homeless by a hurricane. Damage is estimated at NZ$15m.

Power and water supplies are completely cut off, crops destroyed and houses and buildings flattened.

Israelis hit Lebanon

FOUR Israeli helicopter gunships machine-gunned Shi'ite Moslem targets in south Lebanon yesterday, wounding at least 15 people, Reuter reports from Beirut. Israel also moved extra troops into its self-declared border "security zone" in Lebanon, military sources in the southern port of Tyre reported.

Changes in prospect at Alfa Romeo

BY JOHN WYLES IN ROME

THE FIAT group has warned the 34,000 employees of Alfa Romeo, which it acquired on January 1, that important industrial relations changes are on the way. Fiat has merged the formerly state-owned company with its Lancia subsidiary, and is anxious to bring Alfa into line with the industrial relations procedure and conditions.

Initially, Fiat is stepping very gingerly and assuring workers in personal letters that its initiatives will be discussed with the unions. The most important changes will affect *working time* at Alfa's Arese and Pomigliano plants and an end to existing consultation arrangements.

The unions see their future relations with Fiat as full of both opportunities and dangers. Their representation at Alfa is considerably higher than elsewhere in the Fiat group, where it averagse only about 25 per cent. The Alfa-Lancia merger could, therefore, be an opportunity to rebuild union strength at Fiat where it has never recovered from the company's successful confrontation over lay-offs at the beginning of the decade.

At the same time, union leaders wer worried that Fiat, from its position of strength, might smply impose changes on Alfa. "Something has changed in Fiat's behaviour and the unions would be committing a big mistake if they ignored it," said Mr Giogrio Benvenuto, secretary of the UIL union confederation at the weekend.

Under public sector arrangements, union leaders have been accustomed to wide-ranging consultative discussions with Alfa Romeo's management on the future of the business. There is no such practice at Fiat and Mr Benvenuto for one wants to urge Fiat to blaze a new trail by creating equivalent *consultation arrangements in the private sector.*

Fiat is telling its workers that the pay and conditions framework will be subject to the agreements between the private sector companies and the engineering unions. This should not have any impact on pay although the number of work grades will have to be reduced. Alfa's shop-floor workers, however, may have more *difficulty* adjusting to a working day up to 45 minutes longer.

Another important change could be abandonment of the "work groups" system of organising production. This has no part of Fiat tradition which is increasingly dominated by highly robotised, computer controlled assembly lines.

Israeli minister resigns

BY OUR JERUSALEM CORRESPONDENT

MR YITZHAK SHAMIR, the Israeli Prime Minister, has accepted the resignation of Rabbi Yitzhak Peretz, the Interior Minister.

Rabbi Peretz refused to accept a high court order that he sign the identity card of a woman convert, Ms Shoshana Miller. Ms Miller, an American, was converted in the US within the reform branch of Judaism. The ultra orthodox Rabbi Peretz does not regard such conversions as valid in Jewish law. He insisted on placing the word "convert" against the entry for religion on her identity card.

Ms Miller took on the orthodox religion establishment which jealously guards its exclusive control over matters of personal status and she won. The court says such an entry was discriminatory.

Rabbi Peretz's small Shas party is allied with the Likud Bloc, but his resignation is not expected to shake the delicate balance of forces within the government of national unity.

Anthony Robinson watches an act of calculated defiance in South Africa

Non-white issues intrude in whites' poll

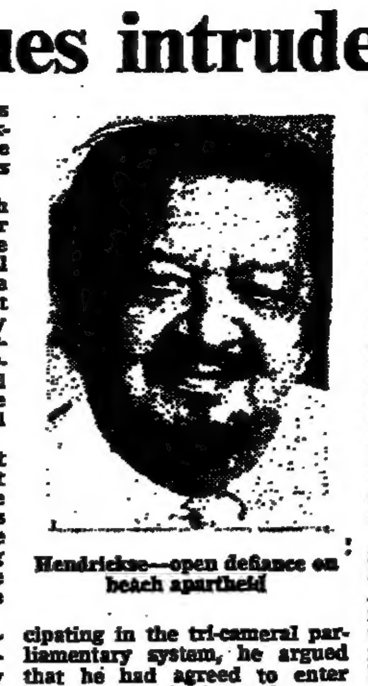
THE Rev Allan Hendrickse, one of two non-white members of the South African cabinet, strolled down to Port Elizabeth's Whites-only Kings Beach yesterday morning, put on his bathing trunks and frollicked briefly in the Indian Ocean.

So did 150 other members of the Coloured (mixed race) *Labour Party*. Reporters and television crews were there to record this challenge to the Separate Amenities Act—but, according to eyewitnesses nobody seemed to mind. The police were conspicuous by their absence and if there were members of the right-wing Herstigte Nasionale Party monitoring the occasion prior to registering a complaint they did so discreetly.

The point that Mr Hendrickse was making, that all racially discriminatory laws, such as the Population Registration Act, the Separate Amenities Act and the Group Areas Act, are immoral and ungodly, was duly made. But the absence of official action also made another unintended point: that the laws are also increasingly unworkable because every year more and more people of all races simply ignore them.

That is good news for South Africa, but embarrassing for President P. W. Botha as he prepares to lead his National Party into an election whose main objective, from his point of view, is to recover as many votes as possible from conservative whites for whom separate housing, educational and recreational facilities are the bedrock of their political beliefs.

In this election he does not have to worry too much about the feelings of blacks, who are not enfranchised, or Coloureds and Indians, who now have the vote but who are not being called to the polls because the election is for the white House of Assembly only.



Hendrickse—open defiance on beach apartheid

The Rev Hendrickse, however, is not in this happy position. Reviled as a "sell out" by many in the 2.5m-strong coloured community for participating in the tri-cameral parliamentary system, he argued that he had agreed to enter parliament only to work more effectively for the speedy abolition of apartheid from within.

He and his supporters, like those of the Indian house headed by Mr Amichand Rajbanse, were rewarded with elegant parliamentary offices, large salaries and parliamentary perks and a seat in the cabinet, albeit as ministers without portfolio.

So long as the Government kept up with its reform programme—by abolishing the pass laws, restoring the citizenship of some black homeland citizens, removing discriminatory clauses in a wide range of detailed laws—MPs in the two new coloured and Indian houses could point to progress and claim a share in the reflected glory.

But when the National Party *moved into pre-electoral action* and put reform of the Group Areas Act on the back burner, it dealt a further serious blow to the credibility of the two new houses which were heavily boycotted in the August 1984 elections.

Mr Hendrickse and Mr Rajbansi, have come under increasing pressure to resign their cabinet seats and walk out of the tri-cameral Parliament. On Friday these pressures bore fruit when Mr Hendrickse warned Mr Botha that his Labour Party might pull out of Parliament unless the Government met its demands for scrapping the Group areas *and all other* apartheid laws.

Mr Botha replied by reassuring his electorate in a statement broadcast on state radio and television that racially separate residential areas would not be abandoned and that Mr Hendrickse had not made abolition an issue in cabinet. He also implied that Mr Hendrickse had endorsed the latest emergency restrictions on the media. Both claims were indignantly repudiated by Mr Hendrickse.

These incidents show that the election campaign might be difficult to confine to whites-only politics. In South Africa there is more to frolicking on white beaches than meets the eye.

Aquino seeks backing for new constitution

BY RICHARD GOURLAY IN MANILA

PRESIDENT Corazon Aquino this weekend launched a nationwide drive for a new constitution that will bolster the legitimacy of her 10-month-old presidency if it is accepted by a plebiscite on February 2.

At the same time, Mr Juan Ponce Enrile, her former Defence Minister, kicked off a campaign for rejection of the charter, which he hopes will force new presidential elections.

The plebiscite is being seen as a vote of confidence in the Aquino Government. The "Yes" *campaign has concentrated on* the personality of Mrs Aquino and the stability that a widely supported new constitution would undoubtedly bring.

Mrs Aquino abolished the old constitution, which Mr Enrile wants reinstated, in March, a month after ousting former President Ferdinand Marcos

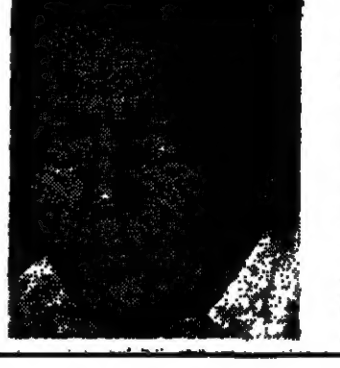
● President Corazon Aquino has appointed Mr Drilon, a management lawyer, as her Labour Minister to replace Mr Augusto Sanchez, who businessmen and some top military officers have accused of being too left-wing.

Mr Crispin Beltran, the chairman of the influential radical Kilusang Mayo Uno (May First Movement) labour confederation, immediately called for nationwide strikes *and factory walkouts today to* protest against the appointment.

Mr Drilon, a former vice-president of the Employers' Confederation of the Philippines, was appointed a deputy Labour Minister in September to balance Mr Sanchez's alleged pro-Labour stance.

Mr Drilon's appointment completes a cabinet revamp that began in November last year when Mrs Aquino sacked Mr Enrile after reports that he was to lead a coup against her government.

The Philippine Government has postponed talks due to start in New York on January 6 with the country's 12 member advisory committee of creditor banks for the renegotiation of $9.2bn of trade and long term debt.



Aquino (above) is opposed by Enrile in fight for new constitution

Moslem rebels sign peace agreement with Manila

BY OUR MANILA CORRESPONDENT

MOSLEM REBELS leading a 17-year-old armed struggle for self - determination in the southern Philippines agreed on Sunday to accept "full autonomy" as opposed to independence for Moslem areas of the country.

Mr Nur Misuari, the chairman of the largest Moslem rebel group, the Moro National Liberation Front, and a Philippine Government team signed the agreement after three days of talks at the Jeddah headquarters of the Organisation of Islamic Conferences.

The *two sides* will resume talks in Manila in February to define full autonomy, which will apply to the islands of Mindanao, Palawan, Tawi-Tawi, Basilan and Sulu.

The Philippines' 5m Moslems make up about 8 per cent of the country's population and are in the majority in only five or six provinces in the southern islands.

Some Christians in Mindanao feel they have been ignored for too long by the National Government in Manila and might go along with autonomy if they could remain in power locally.

Before leaving for the Jeddah talks the MNLF accused the Aquino Government of trying to tie the Moslems' hands by negotiating peace within the context of the new constitution, which goes before a national plebiscite on February 2.

In September Mrs Aquino visited the Moslem stronghold of Jolo, on Sulu Island, and agreed a ceasefire with Mr Misuari under the guidance of the Organisation of Islamic Conferences.

The visit brought about the first lull in the insurgency since former President Ferdinand Marcos's wife, Imelda, agreed with Mr Misuari in Tripoli to autonomy for 13 regions.

Mr Marcos never fully implemented the Tripoli agreement, pleading that splits which had developed in the Moslem ranks made it impossible to conclude talks. Mr Misuari and the MNLF reverted to their earlier demand for independence for Mindanao and the other Moslem areas.

Argentina seeks swift accord on IMF loan

BY TIM COONE IN BUENOS AIRES

ARGENTINE negotiators left for the US at the end of last week in the hope of quickly finalising a 15-month standby loan with the International Monetary Fund for $1.2bn. A further $850m is also being sought in compensatory finance following the decline in Argentina's export earnings last year because of low world wheat and beef prices.

Government economic targets for 1987, which are included in a draft letter of intent, are to reduce inflation to an average of 3 per cent per month, the fiscal deficit to 3 per cent of gross domestic product, and to aim for overall growth in the economy of 4 per cent during the year.

The growth target has been trimmed by 1 per cent from what was being discussed at the end of 1986, presumably to satisfy IMF objections that this would lead to imports rising to too high a level and correspondingly reduce the country's trade surplus with which the foreign debt is being serviced.

Two important clauses are being sought by Argentina in the new agreement. First, that if the 4 per cent growth target looks unlikely to be reached during the year, additional funds will be made available. In addition the Argentines want to establish a price "trigger" for the country's principal exports, wheat and beef, which would make further funds available if export prices fell below a particular level.

The conditions are similar to those obtained by Mexico in its recent agreement with the IMF linking supplementary finance to falls in the world oil price. Fund officials said at the time, however, that the Mexican agreement should not be considered a precedent for other countries.

Nonetheless, Argentina's negotiators appear quietly confident of success and point to other stabilisation targets for 1987 which were announced on Thursday. These include wage rise limits of between 7 and 11 per cent in the first quarter for the private sector (9 per cent in the public sector) and a programme of increases in public sector tariffs to improve the financial health of the public sector service companies and thereby reduce central government subsidies.

The trade unions, however, are already bracing themselves for a further round of industrial action against the Government's economic policy and another 24-hour general strike seems likely to be called before the end of the month. This year is an important electoral year in Argentina and the economy is already becoming the principal campaign issue.

Caracas reforms offices regulating foreign capital

By Joe Mann in Caracas

VENEZUELA is to reorganise the two important government offices which oversee foreign investment and control access to most of the country's foreign exchange.

Mr Manuel Azpurua Arreaza, the Minister of Finance, said that the superintendency of foreign investment (Siex) will be "restructured" this month and converted into an office "basically oriented toward the promotion and development of foreign investment."

In the past, Siex, spent most of its time controlling and regulating foreign capital and was frequently a source of many bureaucratic problems for foreign companies

The administration of President Jaime Lusinchi, however, approved mapor reforms of the country's foreign investment code last year and recently named a new director of Siex.

These changes are in line with the government's efforts to liberalise foreign investment rules and promote new investment by foreign *companies.* During 1986 Siex approved 102 applications for foreign investment (new investments plus expansions of existing plants) for a total of $61.3m.

The Finance Minister also said that the government foreign exchange control office —Recadi—would be eliminated as a separate state entity and would now become a special department in the Finance Ministry.

Recadi deals with all government and private sector applications to obtain foreign exchange at special, subsidised exchange rates, for example for priority imports and debt repayment. Last year authorised subsidised currency for "priority" merchandise imports totalled $5,706m, the minister said.

Mr Azpurua added that central government spending in 1986 totalled $16.65bn and that the Government's budget showed a deficit last year of $1.02bn.

Nepal talks on Gurkhas for UK minister

BY DAVID BUCHAN, DEFENCE CORRESPONDENT

THE increasingly problematic future of Gurkha troops within the British army will be discussed when Mr John Stanley, the UK minister for the armed forces, arrives in Nepal today.

Mr Stanley's six-day visit will be the first British ministerial visit to the home country of Gurkha recruits since the unprecedented dismissal of more than a hundred Gurkha soldiers following an attack last May on two Gurkha officers, one British and one Nepalese.

It also comes a few days before the January 15 disbandment of a Hong Kong-based Gurkha battalion, the start of a run-down that will be complete when the UK colony reverts to China in 10 years' time.

The 2nd Battalion of the 7th Gurkha Rifles was created in 1980 to deal with an upsurge in illegal immigration into Hong Kong. The disbandment of its 600 soldiers in the middle of this month has, the British Government claims, "no implications for the long-term viability of the Brigade of Gurkhas."

"We intend that there shall be a continuing role for the Gurkhas within the British Army after 1997," the Government said in its 1986 defence white paper. But Hong Kong is home to more than half the 7,500 Gurkhas who will still be in the British Army after January 15 and this base will disappear when the Chinese take over in 1997.

The two other main Gurkha deployments are in Brunei, where a battalion is based at the Sultan's expense, and in the UK, where there are two battalions, one of which is part of Britain's rapid-reaction 5th Airborne Brigade.

British recruitment of Gurkhas, who are paid less than their British counterparts but more than they could hope to earn at home, has been a valuable support to the economy of the poor and mountainous country of Nepal.

But in ten years time Britain may run out of bases for these traditionally tough and courageous soldiers. It has always thought its Nato allies would take it amiss if it deployed essentially mercenary troops as part of the British forces in West Germany.

Uncertainty over the Gurkhas' future has heightened since the alleged attack by Gurkha soldiers of a support company of the 1st battalion of the 7th Gurkha Rifles on two of their officers while on manoeuvres with US troops in Hawaii last May 25.

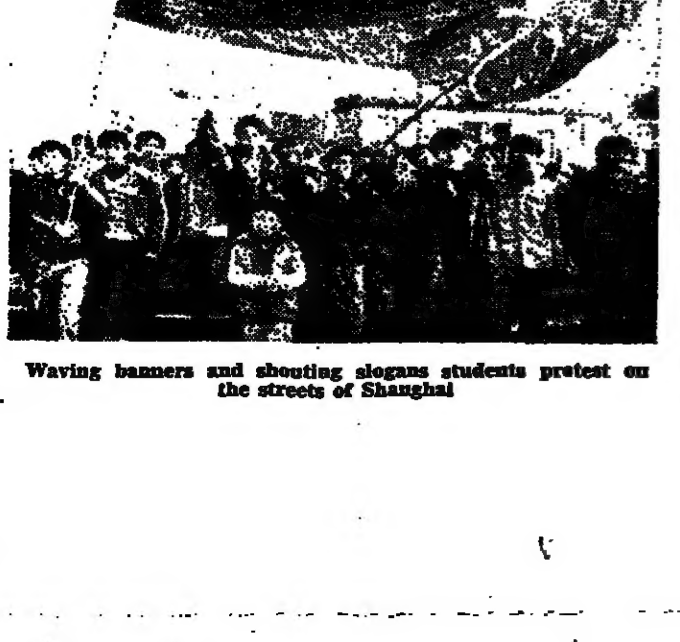
Mr Stanley has said the incident had not detracted from the high esteem in which the Gurkhas were held. But no details or motives of the incident have emerged because no court martial was held due to lack of evidence.

Because the Gurkhas apparently refused to testify against each other, the British authorities argued they had no alternative but to dismiss all 123 members of the support company. Since then 12 men have had their discharges rescinded on appeal and three appeals are still outstanding, the Ministry of Defence said yesterday.

Mr Stanley was a teacher at Eton College in the 1960s when King Birenda of Nepal was a pupil.

Our Foreign Staff describe how the media are attempting to bring the democracy movement to heel

Chinese students accused of challenging party's authority



Waving banners and shouting slogans students protest on the streets of Shanghai

CHINA'S state-controlled media yesterday stepped up its attempts to subdue the student democracy movement by suggesting that the campaign was posing a challenge to the authority of the ruling Communist party.

The People's Daily, the party's chief organ, said in an editorial yesterday that to call for democracy in slogans and to hold illegal rallies, as Chinese students have been doing throughout the country for the past month, "is obviously denying the Communist party's leadership."

Although the authorities have handled the growing student protests with marked indulgence, yesterday's comment in the People's Daily is a clear warning that the movement is in danger of trespassing into forbidden territory.

The editorial, which almost certainly reflects the views of the leadership or, at any rate, a faction within the leadership, warned: "Young people should clearly understand this and cherish the democratic rights won for them in a lifetime of struggle and sacrifice by the young people of the past."

The media have also sought to discredit Western-style political liberalism, even though campuses throughout the country have been generally quiet.

Two more "workers" were arrested for agitating students, bringing the number of people to face trial on protest charges to 10, none of them students.

Numerous posters appeared at Peking University on Saturday, but all were torn down. Several more appeared yesterday, including an open letter to Deng Xiaoping expressing support for him, but condemning media coverage of the student protests. Another poster urged students to assemble at the university this afternoon to burn copies of the Peking Daily, which has been particularly hard on the students.

The newspaper yesterday published a letter allegedly written by bus staff who carried the students back to their universities after their "long march" to Tiananmen Square on Friday morning. The bus workers said they were reluctant to get up so early in the morning, about 5 am, but did so because "it was cold and they (the students) are young."

But the students were ingrates, the bus staff wrote, because they blocked the vehicles' path, and one student was heard to say: "From what I can see, all these workers can do is eat."

The newspaper also published comments by "ordinary" Chinese concerned at the disruption the students caused.

While the press has roundly criticised the students, no coverage has been given of their demands, and the few reports published have been notable for their distortion of numbers involved and events in general. Senior leaders have avoided press statements on the protests, presumably, diplomats say, because they do not want to risk becoming publicly tangled in this awkward issue.

Many rumours of planned protests are circulating on Peking campuses. A train-load of Shanghai students is supposed to be on its way to Peking for a large rally, and student representatives are said to be arriving here from around the country for a meeting to shift the democracy drive into a higher gear.

Both rumours are unlikely. The student campaign has been spontaneous, and no clear agenda has emerged, though a student detained after the Tiananmen protest last week suggested that "now" was the time to put a coherent platform together. Students will also be preoccupied by examinations for the next two weeks.

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: R.A. Harper, Frankfurt/Main, Guiollettstrasse 54, 6000 Frankfurt am Main 1. © The Financial Times Ltd, 1986.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

OVERSEAS NEWS

Soviet Union dismisses 'irresponsible' health chief

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET Minister of Health has been removed after failing to implement on time a government decision to raise the pay of 7m health workers.

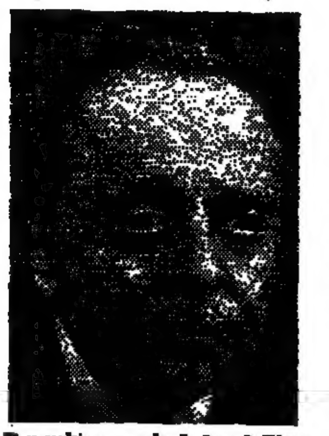
Mr Sergei Burenkov, Health Minister since 1980, retired last week just before he was heavily rebuked by the Council of Ministers for failure to increase the salaries of poorly paid Soviet doctors and medical personnel by 30 per cent.

The angry tone of the statement from the Council of Ministers indicates that Mr Burenkov was in fact fired because the higher rate of pay was only implemented in the second half of December instead of November as originally intended.

The Government has allocated Roubles 3.5bn (£3.5bn) to meet the extra wage costs.

The Council of Ministers' statement, which shows the Kremlin's frustration at the slowness of implementing reforms, accuses Mr Burenkov of "irresponsibility."

"Red tape and a bureaucratic attitude on that issue have also been permitted by the USSR State Planning Committee, the Finance Ministry and the Committee for Labour. As a result the payment of new salaries has been delayed for no sound reason," the statement read.



Burenkov—sacked for failing to meet wage rise deadline

The Council of Ministers says that payment of increased salaries only started in late December in most districts including Moscow but promised that back pay would be paid from November 1, 1986.

The Soviet news agency Tass says that 13 per cent of Soviet factories operated at a loss last year and "were only saved from bankruptcy by government subsidies. The economy cannot function efficiently if such freeloaders continue to be tolerated."

From January 1 the enterprises of seven Soviet ministries have been made self financing. These include the ministries for petrochemicals, chemical engineering, cars, instrument making, merchant marine, trade and light industry.

Tass says the Government has this month forbidden ministries to prop up loss making enterprises with subsidies from profitable ones and warns that the next step in economic reorganisation is "the liquidation" of lossmaking businesses.

New Delhi receives MiG-29s

By K. K. Sharma in New Delhi

THE FIRST of the 48 MiG-29s India is acquiring from the Soviet Union have been delivered and are expected to be operational within three months. Indian Air Force pilots have already received training on the aircraft in the Soviet Union.

The MiG-29 interceptor is India's answer to the sophisticated F-16s which Pakistan has acquired from the US.

Twelve of the Soviet aircraft have been assembled in the factory set up to make the MiG-21 which India has been building for the past 10 years.

The Soviet Union has promised to transfer technology to India so that it can manufacture the MiG-29 as well as the MiG-31 which is meant for anti-Awacs operations.

Both the Mig-29 and the MiG-31, also an interceptor, have been flown only in the Soviet Union.

Delivery of the MiG-29s to be acquired is expected to be completed by the end of this year.

The MiG-29 was offered to India for delivery last year when the first of the aircraft were going into service with the Soviet airforce.

The Indian Air Force has now made the MiG series the mainstay of its fighter force. In addition to the MiG-21 and the MiG-21Bs, its successor, which have been made in India, India has bought an undisclosed number of MiG-23s, MiG-25s and MiG-27s.

These are in addition to the Jaguars being assembled in India, with the help of British Aerospace, and the Mirage 2000, more than 40 of which are being acquired from France.

Carla Rapoport on a temporary setback for the industry

Strong yen hits Japan's electronics

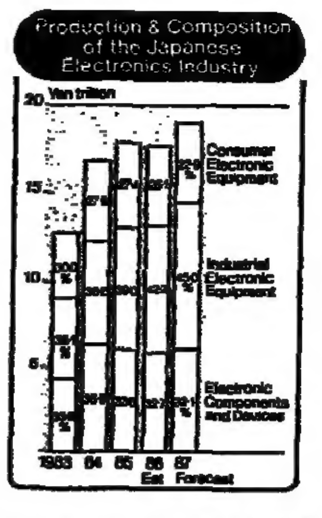
THIS new year holiday will have been the bleakest in more than a decade for Japan's electronics industry.

For the first time in recent memory, its output moved into reverse gear last year, largely because of the effect on exports of the stronger yen.

The decline in fortunes for the world's second largest maker of electronic goods, however, will only be temporary according to an industry forecast. A major reorientation is under way in Japan's electronics industry and by this time next year, it expects to be celebrating once again.

An exhaustive year-end review released by the Electronics Industry Association of Japan recently shows that total production for the industry is expected to have declined by 0.2 per cent to Y17,896bn (£77bn) in 1986. Nearly all the ground was lost in consumer electronics, where production sagged by 8.7 per cent, mainly because of weaker exports.

But, at the same time, the world's largest producer of consumer electronics was busily diversifying into industrial electronics. Total production in the industrial sector for 1986 is expected to have grown by 8 per cent.



This year it is forecast to leap by 13.4 per cent and account for more than 50 per cent of the industry's total output by the end of the decade. Only five years ago, industrial electronics accounted for less than a third of the industry's output.

As a result of this push in the industrial sector the association is forecasting the industry as a whole will recover fully in 1987 with a 6.2 per cent increase in production to more than Y19bn. It predicts that Japan's output of computers and related equipment will jump by nearly 20 per cent this year. Other growth areas are telecommunications, in the wake of the privatisation of Nippon Telegraph and Telephone.

Most of this growth, however, will be in the domestic market, not the international arena since Japan is a relative latecomer to computers. Indeed, Japan has been well behind the US in industrial electronics because of the low level defence spending and contracting. Defence spending in Japan is rising slowly and every extra yen will help the electronics industry complete its reorganisation.

The high yen hit the major exporters dramatically last year. In the second quarter of 1986, operating profits were down by 60.8 per cent against 33.2 per cent for industry as a whole. According to the EIAJ, however, actual production growth well exceeded forecast growth in five out of the past nine years.

Another element of the industry's restructuring is its move to offshore production sites, where labour costs are lower. According to the association, about 10 per cent of total production of those 100 or so companies with overseas plants is now offshore.

The increasing trend for overseas production is another factor leading to declining consumer electronics production at home — most of the foreign investments are in the consumer area. The EIAJ expects output in consumer electronics to drop by 2.9 per cent in 1987. New products, the industry believes, cannot compensate fully for the fall in orders for videocassette recorders, colour televisions and tape players.

To maintain greater efficiency and quality control, Japanese manufacturers generally prefer to produce domestically. The strengthening of the yen, however, has led many companies to establish overseas production facilities as a matter of economic survival.

Russian appointments defended

BY OUR MOSCOW CORRESPONDENT

A SENIOR Soviet Communist Party leader yesterday defended the policy of appointing Russians to senior posts in central Asia instead of members of the indigenous population.

The appointment of Mr Gennady Kolbin, a Russian, as party leader for the central Asian republic of Kazakhstan to replace a Kazakh, Mr Dinmukhamed Kunaev, two weeks ago provoked two days of riots in the republic's capital of Alma Ata.

Mr Timur Alimov, Communist Party leader for Tashkent, the capital of Uzbekistan, wrote in the daily Izvestia yesterday that the appointment of Russians and other nationalities had brought vital experience and qualified party managers to central Asia.

"There are some people among us, not to mention the west, who are ready to represent these measures to strengthen the republic's senior personnel as some kind of anti-national campaign," he said.

Since the death in 1983 of Mr Sharaf Rashidov, leader of Uzbekistan for 24 years, Moscow has carried out a thorough purge of his supporters. At least 10 out of the 13 Communist Party leaders in the provinces into which Uzbekistan is divided have been dismissed.

This wave of dismissals has apparently compelled Moscow to draft in Slavs from other parts of the country to take over local positions.

In Tashkent, a city of 2m, Uzbeks now outnumber Russians, but in most of the central Asian cities Russians who have emigrated there over the past century are a majority or large minority.

Study criticises World Bank lending policy

BY OUR FOREIGN STAFF

THE WORLD BANK is too secretive and does not attach enough importance to the environment and human effects of the projects it finances, according to research conducted with the co-operation of its own executives.

A report of the research into the Washington-based bank's lending policy also suggests that resettlement and rehabilitation of native populations is not adequately monitored.

But a conference aimed at bringing the bank and its critics together to discuss the report, has been cancelled after the bank declined to attend. The research has been carried out on behalf of the London-based International Institute for Environment and Development.

The researcher was Mr Graham Searle, a former consultant to the Organisation for Economic Co-operation and Development.

His report concludes that constructive comment on proposed lending is often not possible because disclosure of relevant papers is confined to registered companies. Mr Searle suggests a more open attitude, including the publication of policy documents.

He also proposes that resettlement and rehabilitation agreements between the bank and recipient governments should be more adequately monitored to ensure terms are observed. He says the bank deserves criticism for not ensuring that local populations are represented on institutions set up with its help to oversee and to monitor developments.

Mr Searle suggests the creation of a natural resource assessment unit, the advice of which should be considered on a par with economic factors when reaching a decision on whether to grant a loan. The bank would be wise, he adds, to employ more qualified staff to monitor agreements and policy implications.

SHIPPING REPORT

Rates unmoved by active tanker market

BY KEVIN BROWN, SHIPPING CORRESPONDENT

THE TANKER market was more active than expected during the long Christmas and New Year holiday and rates remained largely unchanged.

Brokers said the unexpectedly high volume of business was probably because of charterers endeavouring to mop up the last of the supplies of crude cheap oil before the imposition of revised production quotas by the Organisation of Petroleum Exporting Countries.

E. A. Gibson, the London shipbrokers, said prospects were not bright for owners, however, not least because of the reduced requirement for tonnage brought about by reduced production quotas.

E. A. Gibson noted that only about 136 tankers, totalling 14.3m tons deadweight, were scrapped during 1986, compared with about 30m tons deadweight in 1985.

The tanker market is unlikely to return to supply and demand equilibrium without a return to scrapping at 1985 levels, Gibson said.

The New Year brings a change in the method of calculating Worldscale rates, which means owners will need to secure an increase of around 30 per cent on last year's levels in order to maintain revenue.

Brokers said there were still fears that charterers would prove psychologically resistant to the higher Worldscale figures, with potentially damaging effects on owners.

Owners will need to take active steps to resist attempts by charterers to take advantage of the Worldscale change, particularly in view of steadily increasing bunker prices, which have risen to about $100 from a base of about $40 in mid-1985.

Belgrade utility to sell bonds

THE Belgrade Electricity Board will put on sale today bonds carrying higher interest rates than bank deposits in an attempt to raise money to finance power plant construction, Reuter reports from Belgrade.

The bonds, repayable after two years, will attract interest at an annual rate of 68 per cent, seven percentage points more than equivalent bank deposits, but much below the inflation rate, put officially at 88 per cent at the end of 1986.

World Economic Indicators

RETAIL PRICES
(1980 = 100)

	Nov. 86	Oct. 86	Sept. 86	Nov. 85	% change over previous year
W. Germany	119.9	120.0	120.4	121.3	−1.2
France	163.4	163.3	162.9	160.1	+2.1
Italy	204.4	203.6	202.5	195.8	+4.4
Netherlands	123.3	123.2	122.4	123.2	+0.1
Belgium	142.6	142.7	142.8	141.8	+0.5
UK	147.8	147.3	147.1	143.5	+3.0
US	133.9	133.9	133.8	132.3	+1.2
Japan	115.1	115.3	115.3	114.9	+0.2

Source: Eurostat

HALF-PRICE TIME

January is SALE-TIME at Watches of Switzerland and we are offering a wide selection of famous-brand Swiss watches to clear at HALF PRICE. There are many to choose from but in ones and twos only, so first-come, first-served. All are new and perfect and carry our normal international guarantees.

EXAMPLES	WAS	SALE PRICE	EXAMPLES	WAS	SALE PRICE
Lady's OMEGA	£295	£147.50	Lady's ROTARY	£525	£267.50
Gent's OMEGA	£4,150	£2,075	Gent's ROTARY	£82.50	£41.25
Lady's LONGINES	£295	£147.50	Lady's TISSOT	£99.50	£49.75
Gent's LONGINES	£325	£162.50	Gent's TISSOT	£65	£32.50
Lady's J. RENET	£195	£97.50	Lady's BAUME+ MERCIER	£2,066	£1,033
Gent's J. RENET	£165	£82.50	Gent's BAUME+ MERCIER	£4,132	£2,066
Lady's B. GIROD	£895	£447.50			
Lady's B. GIROD	£1,295	£647.50			

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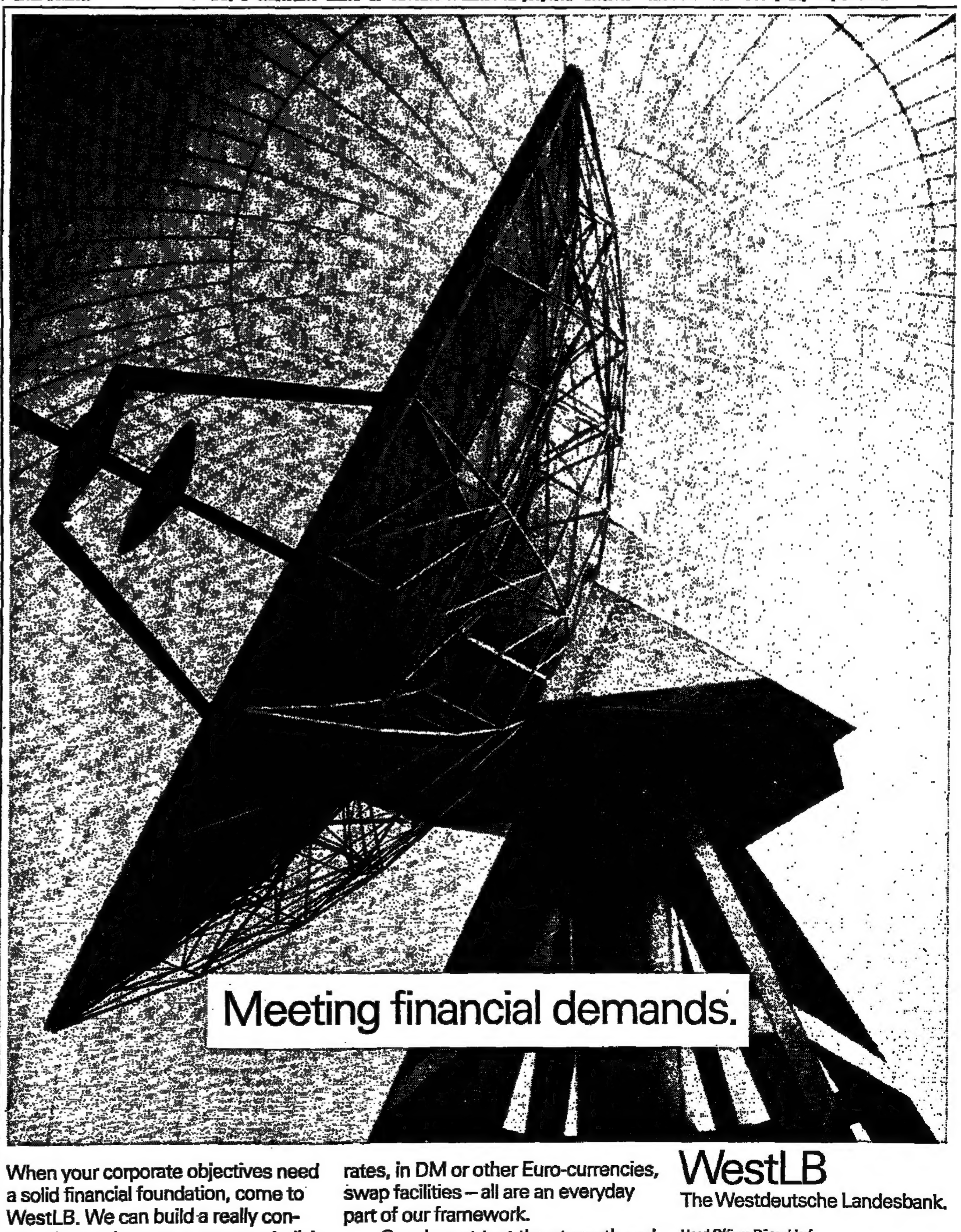

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On Tuesday, 24th February 1987 Balance of purchase money

INTEREST PAYABLE HALF-YEARLY ON 9TH JUNE AND 9TH DECEMBER

The Loan is an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961, subject as regards securities payable to bearer to the provisions of Section 7 of the Trustee Act 1925. Application has been made to the Council of The Stock Exchange for the Loan to be admitted to the Official List.

1. THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND are authorised to receive tenders for £1,000,000,000 of the above Loan; the balance of £250,000,000 has been reserved for the National Debt Commissioners for public funds under their management.

2. The principal of and interest on the Loan will be a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom.

3. The Loan will be repaid at par on 9th June 1994.

4.–23. [illegible]

Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 [illegible]

BANK OF ENGLAND
LONDON
2nd January 1987

THIS FORM MAY BE USED

TENDER FORM

This form must be lodged at the Bank of England, New Issues (N), Watling Street, London, EC4M 9AA not later than 10.00 A.M. ON WEDNESDAY, 7TH JANUARY 1987, or at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England not later than 3.30 P.M. ON TUESDAY, 6TH JANUARY 1987.

ISSUE OF £1,250,000,000

10 per cent Treasury Loan, 1994

MINIMUM TENDER PRICE £98.00 PER CENT

TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND

I/We tender in accordance with the terms of the prospectus dated 2nd January 1987 as follows:—

Amount of the above-mentioned Loan tendered for, being a minimum of £100 and in a multiple as follows:—

Amount of the Loan tendered for	Multiple
£100—£1,000	£100
£1,000—£3,000	£500
£3,000—£10,000	£1,000
£10,000—£50,000	£5,000
£50,000 or greater	£25,000

1. NOMINAL AMOUNT OF THE LOAN £

Amount of deposit enclosed, being £40.00 for every £100 of the NOMINAL amount of the Loan tendered for (shown in Box 1 above):— 2. AMOUNT OF DEPOSIT £

The price tendered per £100 of the Loan, being a multiple of 5p and not less than the minimum tender price of £98.00:— 3. TENDER PRICE £ : p

I/We hereby engage to pay the balance of the purchase money when it becomes due on any allotment that may be made in respect of this tender, as provided by the said prospectus.

I/We request that any letter of allotment in respect of the amount of the Loan allotted to me/us be sent by post at my/our risk to me/us at the address shown below.

SIGNATURE .... January 1987 of, or on behalf of, tenderer

PLEASE USE BLOCK LETTERS

MR/MRS/MISS FORENAME(S) IN FULL SURNAME

FULL POSTAL ADDRESS

POST TOWN COUNTY POSTCODE

A A separate cheque must accompany each tender. Cheques should be made payable to "Bank of England" and crossed "New Issues". Cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Islands or the Isle of Man.

B The price tendered must be a multiple of 5p and not less than the minimum tender price. If no price is stated, this tender will be deemed to have been made at the minimum tender price. Each tender must be for one amount and at one price.

NOTICE OF REDEMPTION

GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA, LIMITED

Canadian $50,000,000 16½% Notes due February 1st, 1989

Pursuant to the terms of paragraph 8 (a) of the Notes, which provides that at any time on or after February 1st, 1987 the Notes may be redeemed at the option of the Company, notice is hereby given that General Motors Acceptance Corporation of Canada, Limited intends to redeem on February 1st, 1987 the Cdn. $50,000,000 16½% Notes due February 1st, 1989 at a price of 100.5% of the principal amount together with interest on such principal amount accrued and unpaid to the said date of redemption.

The redemption price of the said Notes shall be payable on presentation and surrender thereof with all unmatured coupons at any one of the following paying agencies:

BANK OF MONTREAL
Toronto Securities Service Centre
B 1 Level, First Canadian Place
Toronto, Ontario
M5X 1A1
Canada

BANQUE GÉNÉRALE DU LUXEMBOURG S.A.
27 Avenue Monterey
P.O. Box 2106
Luxembourg

BANK OF MONTREAL
9 Queen Victoria St.
London EC4N 4XN
England

CHEMICAL BANK
P.O. Box 17 41 6
Ulmenstrasse 30
6000 Frankfurt 17,
West Germany

BANQUE BRUXELLES LAMBERT S.A.
60 Cours St. Michel
1040 Bruxelles,
Belgium

CHEMICAL BANK
190 Avenue Charles DeGaulle
92523 Neuilly-Sur-Seine
Paris, France

CHEMICAL BANK
Freigutstrasse 16
8002 Zurich,
Switzerland

CHEMICAL BANK
46 Avenue Des Arts
1040 Bruxelles
Belgium

NOTES should be surrendered with all coupons appertaining thereto maturing on or after the date fixed for redemption, failing which the face value of any coupon not so delivered will be deducted from the sum due for payment.

Any amount so deducted will be paid against surrender of the said coupons within a period of 10 years from February 1st, 1987. On and after the date fixed for redemption, interest on the notes will cease to accrue.

Dated at City of Toronto this 15th day of December, 1986.

GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA, LIMITED

Legal Notices

No 008418 of 1986

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF AETNA LIFE INSURANCE COMPANY LIMITED

AND IN THE MATTER OF TYNDALL ASSURANCE LIMITED

AND IN THE MATTER OF THE INSURANCE COMPANIES ACT 1982

NOTICE IS HEREBY GIVEN that a Petition was on the 24th November 1986 presented to Her Majesty's High Court of Justice by AEtna Life Insurance Company Limited ("AEtna") for sanction under Section 49 of the Insurance Companies Act 1982 to a scheme ("the Scheme") providing for the transfer to AEtna of the long term insurance business of Tyndall Assurance Limited and for an Order making ancillary provision in connection with the said transfer under Section 50 of the said Act.

Copies of the said Petition, the Scheme, and a report by an independent Actuary in pursuance of the said Section 49 may be inspected at each of the registered offices of AEtna and Tyndall Assurance ("Tyndall") both situate at 401 St. John Street, London EC1V 4QE and at the offices of AEtna whose addresses are specified in the Schedule hereto during normal business hours for a period of 21 days from the publication of this notice.

The said Petition is directed to be heard before the Honourable Mr Justice Vinelott at the Royal Courts of Justice, Strand, London, WC2, on Monday 2nd day of February 1987. Any person (including any employee of AEtna or Tyndall) who claims that he or she would be adversely affected by the Scheme may appear at the time of hearing in person or by Counsel.

Any person who intends so to appear, and any Policyholder of AEtna or Tyndall who dissents from the Scheme but does not intend so to appear, should give not less than two clear days prior notice in writing of such intention or dissent, and of the reasons therefor, to the undermentioned Solicitors.

Copies of the documents specified above will be furnished by such Solicitors to any person requiring them prior to the making of an order sanctioning the Scheme on payment of the prescribed charges therefor.

Dated this 18th day of December 1986.

PETER BENNETT & CO.,
40 Queen Square,
Bristol BS1 4LY.

The Schedule before referred to:

1. 3rd Floor, Imperial House, 15/19 Kingsway, London WC2 6UN.
2. 2nd Floor, King William House, 13 Queen Square, Bristol BS1 4NT.
3. Saxon House, Heritage Gate, Derby DE1 1NL.
4. 8th Floor, Edgbaston House, 3 Duchess Place, Birmingham B16 8NH.
5. 2nd Floor, St. George House, Great George Street, Leeds LS1 3DL.
6. 1st Floor, Clarence House, Clarence Street, Manchester M2 4DW.

UK NEWS

Sales of Mercedes 'will hold steady in 1987'

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

SALES of Mercedes commercial vehicles in the UK in 1987 will be about the same as the 14,000 in 1986 although the total market is expected to fall slightly, according to Mr Hans Tauscher, managing director of Daimler-Benz's UK subsidiary.

The West German company's car sales would also hold steady at about 20,000 although "it is not very economic to sell West German vehicles in the UK" because of this year's sharp rise in the value of the D-Mark against the pound.

Mr Tauscher said that the uncertainties surrounding a possible general election would dampen total heavy commercial vehicle sales (those over 3.5 tonnes gross weight) in the UK by between 3 per cent and 5 per cent in 1987.

The turmoil caused by General Motors stopping production of Bedford medium and heavy trucks last month and the merger of Ford's British truck operations with Iveco, the Fiat-owned group, would last well into next year. "Only in the autumn will it settle down."

Mercedes-Benz (UK) would not cut back vehicles sales in spite of the currency problems because that might jeopardise the dealer networks.

UK prices for cars and commercial vehicles would rise substantially during 1987, and this should help absorb at least some of the currency pressure.

UK vehicle prices could well go up at three or four times the inflation rate.

However, while it would take a 20 per cent increase in Mercedes car prices in 1987 to catch up with the currency changes, "we cannot be arrogant and assume the customer would pay any price for a Mercedes. We must be realistic and use some intelligence when deciding our pricing position."

As for trucks, Mr Tauscher assumes that the British producers will take the opportunity to raise their prices as importers are forced to increase theirs.

He said that the two Swedish producers, Scania and Volvo, are, like Daimler-Benz, under pressure to lift prices although the impact of the fall in the value of the pound was only half as great against the Swedish currency as against the D-Mark.

● Two new four-wheel-drive Japanese pick-up trucks, including a small one with no competition in the UK, are to be launched in 1987 by the company which imports Daihatsu vehicles into Britain.

Daihatsu (UK), part of the Tozer Kemsley and Milbourn trading group, hopes the pick-up will enable it to recover from a sharp drop in commercial vehicle sales in 1986.

Registrations of the Daihatsu Fourtrak vans to the end of November had fallen from 1,270 in the same period of 1985 to 469, following the launch of a British-built competitor, the Bedford Rascal.

The Rascal, based on a Suzuki vehicle but built at General Motor's Bedford van plant in Luton, north of London, is also sold by GM to the Suzuki dealer network in Britain as Carry.

Call charges to Europe will rise

By Kevin Brown

BRITISH Telecommunications has announced an overall reduction of 1.7 per cent in charges for calls carried on the International Packet Switching Service, which transmits data in coded self-contained blocks.

Call charges to Europe will increase by 2.8 per cent in real terms, however, while the cost of calls to North America will be unchanged.

In a letter to customers, British Telecom International said volume charges to other international destinations would increase by 0.1 per cent, while duration charges would fall by 10 per cent. The effect would be to reduce the cost of an average call by 2.4 per cent.

British Telecom International also said the Fast Select, or Minicall facility available on the national packet switching network would be extended to international use once agreement had been reached with overseas operators.

This allows the use of more sophisticated terminals to speed up data exchange and reduce costs.

What makes insider trading illegal?

BY LEO HERZEL AND LEO KATO

A RECENT cartoon by Austin in the Spectator magazine shows a hare stepping up to the window of a betting shop with the words: "A grand (£1,000) on the tortoise." Insider trading, the cartoon seems to say, has become so pervasive that ridicule is more appropriate than outrage.

But was the hare's behaviour so terrible? Does the hare's bet mean it is planning to throw the race? Possibly, but not necessarily. Maybe it was feeling unwell that morning and thought it might have trouble winning the race. Or maybe it wanted to hedge its investment. After all, unexpected things can happen even to the swiftest hares. Or maybe it had some praeternatural inkling of imminent doom.

But is the betting public harmed by the hare's bet? On the contrary. Anyone who saw the hare in the betting shop (foremost, the man at the window) will take note of its apparent concern and readjust the odds accordingly. By allowing the hare to place its £1,000 bet, the "bookie" gains valuable knowledge about the likely outcome of the race and is clearly better off.

But then again, is the hare not breaking trust with its trainers or owners? Surely they would be shocked if they knew of its conduct. If there is a problem, this is where it would be. Condoning such behaviour may reduce the incentive to enter hares or tortoises at Kempton racecourse on Boxing Day.

The world of insider trading in securities is rich in similar ambiguities. They are dramatised by the recent case of Mr Ivan Boesky, who settled Securities and Exchange Commission (SEC) charges of insider trading by disgorging $50m in profits and paying an additional $50m in penalties. Much of Mr Boesky's wrongdoing seems to have consisted in buying advance notice of pending takeovers from an investment banker acquaintance, Mr Dennis Levine.

Let us start with the legal ambiguities. One of the two SEC regulations under which Mr Boesky was charged was Rule 14e-3. It flatly states that if someone has taken "substantial steps" to commence a tender offer, it is deemed fraudulent for anyone who has acquired non-public information from him, or one of his agents, about the offer, to trade in that security. This rule probably covered the bulk of Mr Boesky's transactions. Alas, under supreme court precedents, it is far from clear that the SEC had statutory authority to pass this sweeping rule. But Mr Boesky was probably reluctant to gamble everything on a court challenge to the rule – considering that he would probably still be liable under a second rule invoked against him.

That second rule is the SEC's all-purpose anti-fraud Rule 10b-5. The prototypical insider trading case under Rule 10b-5 is one where a director of officer learns that his company has just struck gold and starts buying its shares before the discovery is announced*. What renders this sort of thing fraudulent, courts have explained, is that the insider is taking advantage of the company's stockholders to whom he owes a special fiduciary obligation.

But Mr Boesky was not an insider, not a director, nor an officer, nor a relative of one. He does not seem to have breached a fiduciary duty to anyone with whom he was trading. How then was he doing something illegal? Courts have had a hard time with this question. Take one leading case, *Chiarella v. United States*, decided before Rule 14e-3. Mr Chiarella was mark-up man at Pandick Press, a financial printer in New York. Among his mark-ups were five announcements of corporate takeover bids. The targets' names were disguised in code. Mr Chiarella, however, quickly deciphered the code, bought target stock and made a profit.

He was trading on non-public information. Nevertheless, the Supreme Court reversed his criminal conviction. The court reasoned that since Mr Chiarella was not an insider of the companies whose stock he dealt in, he owned no fiduciary duty to the persons with whom he was trading. Hence, there was nothing *fraudulent in trading* with them without telling them what he knew.

From the standpoint of Section 10b-5, Mr Boesky was just like Mr Chiarella. He obtained some non-public information by virtue of his position, but he was not an insider of the companies whose stock he traded. Hence, under *Chiarella*, he owned no fiduciary duty to the persons with whom he was trading. So how could there be anything fraudulent in trading with them without telling them what he knew?

Since the Chiarella case was decided, the SEC and the courts have developed some alternative theories of liability for catching outsiders. A number of lower courts have held that even though defendents like Mr Chiarella and Mr Boesky do not really defraud the people with whom they trade, they defraud those from whom they get their inside information. And that, they say, is enough for Rule 10b-5 liability ‡. Thus, *Mr Chiarella may have* harmed the Pandick Press and its clients, the would-be acquirers. Thus, Mr Boesky may have injured the clients of the investment bankers who funnelled the information to them. The Supreme Court has not yet completely endorsed this theory, but it has made it clear that trading by anyone who pays an insider for information is deemed tantamount to trading by an Insider §. If Mr Levine was an insider of the companies whose information he passed on, Mr Boesky was his "co-venturer," and liable as such under Rule 10b-5.

So much for the legal ambiguities of insider trading. Let us turn to the moral and economic ones. The harm from insider trading is not all that easy to discern. *After all, it has* the distinctly positive effect of quickly pushing the market price of the traded stock (like the odds in the hare cartoon) to where it should be in the light of new information.

Some of the aversion to insider trading seems rooted in a very strict nation of fair play – that only trading between information equals is fair. Not surprisingly, critics of the insider trading laws have derided this standard of fairness. They point out that the owner of non-public information usually expends a lot of effort to get it. Should be not be rewarded for that effort? In fact, would it not be wrong not to reward him, since that would reduce the incentive to collect information, making market prices less accurate?

Another argument against insider trading is that in cases like those of the financial printer Mr Chiarella or Mr Boesky it really amounts to stealing. Mr Chiarella and Mr Boesky, it is argued, were appropriating information that belonged to someone else. The argument must be taken with a pinch of salt. To begin with, it is odd to use the securities laws to prosecute someone who has stolen proprietary information. Plenty of state laws in the US already cover that subject. More importantly though, it is unclear who has been harmed. The would-be acquirer? Acquirers are often delighted when arbitrageurs get advance notice of an impending takeover, buy up all the shares and tender them when the offer is made official. In fact, they are sometimes suspected of giving the process a little help.

Some have argued that the *acquirer is harmed because insider* trading before a takeover drives up the target's price and makes it more expensive to acquire the target. But that makes little economic sense. When rational shareholders decide whether to tender their shares, they compare the offering price with the price the shares would be at without a tender offer, not with the price just before the offer was made.

Others have said that the acquirer is harmed because insider trading gives the target advance notice of the takeover. But the Williams Act already forces anyone who makes a tender offer to wait 20 business days between the announcement of the offer and the time it closes. Whether or not the target gets *a few extra days' notice* of a planned takeover, it is unlikely to make much difference.

The strongest argument against insider trading is that it creates a lot of costly uncertainty. If we allow insiders, or those who steal information, to trade on it, we are allowing them to benefit, to an uncertain extent, at the expense of other shareholders. That uncertainty is the problem. It has two bad consequences. First, an insider's compensation bears little relation to his usefulness. Everyone is more or less equal, commissionaire or chairman of the board. Second, an insider's compensation would be very unpredictable, because neither insiders nor shareholders can know in advance what order of magnitude the profits will have. *All of this* means insiders would have less incentive to work hard and shareholders will have less incentive to invest. How much less? No one knows. And by that thread hangs the real case against Mr Ivan Boesky.

* *SEC v Texas Gulf Sulphur Co, 401 F2d 833 (2nd Cir. 1968)*
† *445 US 222 (1980)*
†† *United States v Carpenter, 791 F2d 1024 (2nd Cir. 1986); SEC v Materia, 745 F2d (2nd Cir. 1984); United States v Newman, 644 F2d 12 (2nd Cir. 1981)*
§ *Dirks v SEC, 463 US 646 1983*
The authors are partners in Mayer, Brown and Platt of Chicago.

ALL THESE SHARES HAVE BEEN SOLD. THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY

NEW ISSUE

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DECEMBER 19, 1986

UK NEWS

Labour tries to shift emphasis on to economy

BY PETER RIDDELL, POLITICAL EDITOR

A DETAILED programme of how unemployment would be reduced by 1m over two years by an incoming Labour government will be considered this week by the party's Shadow Cabinet at a two-day strategy meeting.

Papers have been prepared setting out in which sectors sufficient jobs might be created, particularly following discussions about employment priorities with local authorities and nationalised industries.

The leadership emphasis is very much on "legitimate jobs", to improve the quality of existing public services and to provide new services, rather than merely a blanket pledge to reverse employment reductions in the public sector.

The details, which will be unveiled over the next three months, *are intended to give political credibility* to Labour's unemployment pledge. These discussions are being closely tied in with parallel talks between Labour's Treasury team and spokesmen for spending departments about the priorities for additional public expenditure between jobs, new services and higher wages.

These discussions form part of an attempt by the Labour leadership to shift the political debate onto the economy and away from nuclear defence which has damaged the party's standing.

In reaffirming the 1m unemployment reduction promise, Mr Roy Hattersley, Labour's Shadow Chancellor, yesterday stressed in a BBC Radio 4 interview what he called the "impending balance of payments crisis."

He said the Shadow Cabinet would have to consider how quickly this crisis had come upon us and what Labour would have to do to deal with it.

Labour leaders were yesterday relieved about a Market and Opinion Research International Survey putting their party almost neck-and-neck with the Tories, *in contrast to the large gap shown by the* pre-Christmas Gallup poll.

In detail, the Mori survey in yesterday's Sunday Times shows the Tories at 39 per cent, Labour at 38 per cent and the Alliance at 21 per cent.

Mr Hattersley said that he always expected Labour to be going through a trough now before climbing out of it in the early months of 1987.

Peter Riddell examines Mrs Thatcher's election options

Caution likely on poll decision

MOST Prime Ministers are cautious about calling a general election, and Mrs Thatcher is likely to be no exception this year.

As colleagues who attended her pre-election conclave in early May 1983 have subsequently testified, she took a lot of persuading – or perhaps wanted everyone else fully committed – before agreeing to go to the country. And then the Tories had a clear and apparently unassailable lead.

The decision is one of the few taken by a Prime Minister which, if wrong, generally cannot be retrieved and seldom allows the chance of a replay. In post-war cases where the Prime Minister has had a reasonably free choice the record is mixed. In 1951, 1970, February 1974 and 1979 (by failing to go to the country the previous autumn) the decisions turned out to be wrong. By contrast, the timing was right, or successful, in 1955, 1959, 1966 and 1983.

Mrs Thatcher will, therefore, want to be as sure as possible of success before taking the risk. Her instinct apparently is to wait until this September or October – a view at present shared by many in the Cabinet. But the odds on a late spring or early summer date have been *shortening* in *recent* weeks, with the encouragement of Conservative Central Office.

As the 1983 experience showed, a self-fulfilling momentum can develop at Westminster, among commentators and in the financial markets, leading to an early election if the omens are favourable.

In these circumstances, each opinion poll will be highlighted. The snag is that individual polls can be erratic and their significance exaggerated. Consequently, just as the Gallup survey before Christmas showing a 8.5 percentage point Tory lead was interpreted as indicating an early election, so yesterday's Market and Opinion Research International (Mori) survey putting the Conservatives and Labour only a point apart was presented as cooling such speculation.

A more reliable guide is the trend of the weighted sample of several polls which irons out random fluctuations. On this basis, the Tories have been slowly improving their relative position in the past two months. In December, for example, the surveys, including Mori, pointed to Tory support of about 40 per cent, with Labour at roughly 37 per cent and the SDP Liberal Alliance at nearly 22 per cent.

Mrs Thatcher would probably not risk an election with such a small lead, since this might only just give the Tories an overall majority in the House of Commons and could easily result in a hung Parliament.

The *key dates affecting* her decision will be: late January – the launch of the Alliance's pre-election campaign with a rally at London's Barbican centre, including policy themes, a new theme tune and logo.

Early February – Labour local government conference in Leeds to be a springboard for the pre-election campaign with details of jobs package.

Late February/early March – by-elections at Truro in south-west England and Greenwich in London, which should, on current trends, be comfortably retained by the Liberals and Labour respectively.

Early-to-mid March (Tuesdays 3, 10 or 17) the budget, *with hopes of a* cut of 2p to 3p in the pound off the basic rate of income tax.

March 20/21 – Conservative Central Council in Torquay, southwest England, for a rally of activisits addressed by ministers and Mrs Thatcher.

Late March/early April – visit by the Prime Minister to Moscow, certain to attract massive publicity.

Early-to-mid April – decision needed on whether to go for May 7 election to coincide with local polls.

Late spring/early summer headline's are likely to show retail price figures rising to at least 4.5 per cent and possibly over 5 per cent, since comparison will be with very low monthly rises in 1986. This time the rise in oil and petrol prices could push up the index, though this could be offset by any cut in the mortgage rate.

May 7 – local elections at district level everywhere except London and Scotland. Comparison will be with 1983, which was a successful Tory year, so Labour and, especially, the Alliance should do relatively well. This may discourage a June election.

June 4 or 11 – possible election dates.

August/September – headline unemployment total could fall below 3m especially if there is a further batch of training and special measures.

September 1/4 – SDP conference in Portsmouth, southern England (unusually early).

Early-to-mid-September – decision needed on possible autumn election (Sept 24, Oct 1, 8 or 15).

September 13/18 – Liberal conference in Harrogate, northern England.

September 26/October 2 – Labour conference in Brighton, on the south coast.

October 5/9 – Conservative conference in Blackpool, in the north.

That noted political sage Mr Jeffrey Archer was probably right in a TV-AM interview yesterday in saying that the odds for the election date are at present 50/50 between May/June and October, and that 1988 no longer looks credible, given the build-up of election speculation and preparations.

It is therefore likely to be a feverish few months until Mrs Thatcher either opts for a late spring election or dampens excitement for a few more months.

PUBLIC NOTICE

Central Bank of India
and
Bank of India

NOTICE IS HEREBY GIVEN, that with effect from 1st January 1987, the business and (subject to limited exceptions) assets of the United Kingdom branches of Central Bank of India in London, East Ham and Birmingham have been vested in Bank of India and (subject to limited exceptions) Bank of India has from that date assumed full responsibility for the liabilities of such branches of Central Bank of India. Enquiries arising in relation to the affairs of the above branches of Central Bank of India should be addressed in the first instance to:

Mr J. K. Dighe,
Bank of India, Kent House,
11-16 Telegraph Street, London EC2R 7AS
Tel: 01-628 3165 Ext. 207 Telex: 885925

REPUBLIC OF TURKEY

MINISTRY OF TRANSPORT
GENERAL DIRECTORATE OF
RAILWAYS, HARBOURS AND AIRPORTS CONSTRUCTION

THIRD PORTS PROJECT
SUPPLY OF NEW FLOATING EQUIPMENT
INVITATION FOR PREQUALIFICATION

1. The Republic of Turkey has received a loan from the World Bank in various currencies towards the cost of the Third Ports Project, and it is intended that part of the proceeds of this loan will be applied to eligible payment under the contracts for which this invitation to interested parties who wish to apply is issued.
2. Manufacturing firms from member countries of the World Bank and Switzerland and Taiwan, China are invited to apply for prequalification to participate in the bidding for the supply of:
   (a) two *self-propelled Floating Cranes of 100 tons lifting capacity*;
   (b) three Bucket Dredgers (500 litre buckets, depth 16-20 metres); and
   (c) six Backhoe Dredgers (Three 2.2 M3/12 M Depth, Three 4.5 M3/15 M depth).
3. Manufacturers may apply for prequalification for supply of one, two or all three types of equipment, but proposals to bid for supply of less than the specified number of units of any type will not be accepted. Data relating to the firm's experience of similar equipment produced since from 1974 onwards, work currently in progress and status, financial position, personnel, etc., will be required. A detailed listing of requisite data and method of evaluation of applications may be obtained from:

Republic of Turkey
Ministry of Transport
General Directorate of Railways, Harbours and Airports Construction
Karayollari Sitesi Blok B
Yücetepe, Ankara, Turkey
Telex Number: 43432

The requisite details should be delivered at or received by mail at the above address by 20 February 1987 till 17.30 Ankara hour.

Row over job losses looms

POLITICAL controversy over the extent to which unemployment has fallen unevenly on the traditional industrial regions will be fuelled this week by the Department of Employment's job census figures, writes Alan Pike.

The figures, to be published on Thursday, are expected to show that 2m jobs in manufacturing industries have disappeared since 1979 – and that most job losses since then have occurred in Scotland, Wales, Northern Ireland and the North and Midlands of England. Most of southern England, by contrast, will be shown to have suffered few job losses.

Mr Gordon Brown, Labour's regional affairs spokesman, yesterday wrote to the Mrs Margaret Thatcher, the Prime Minister, asking her to review regional policy in the light of the position which will be revealed by the figures.

US Navy set to decide on GEC/Rockwell order

BY KEVIN BROWN

THE US NAVY is expected to decide shortly whether to go ahead with an order for communications equipment which could be worth up to $3bn over 10 years to a consortium set up by the General Electric Company of the UK and Rockwell, the US defence contractor.

The US Defence Department refused to confirm yesterday that a decision was imminent, but Dr Ian MacBean, managing director of GEC's Marconi subsidiary, said he was "optimistic" that work on the contract would start in March.

Dr MacBean said the GEC/Rockwell consortium was the only bidder for the contract, which is intended to supply the US Navy with equipment capable of overcoming Soviet jamming.

The initial contract would be for development work lasting up to two years, followed by testing and full production. The contract would be subject to annual review, in common with most US defence contracts.

The communications system being offered by GEC – code-named HFAJ – is an updated version of the ICF3 equipment in use in the Type 22 frigates operated by the Royal Navy. The US Navy has been testing ICF3 for the last two years.

Dr MacBean said the US Navy "still have to take a decision as to whether they are actually going to go proceed with the contract.

"But if they proceed with it in its present form then, subject to satisfactory negotiations, we shall get it."

ASICS CORPORATION

U.S. $15,000,000 5¾ per cent. Convertible Bonds 1993

To the Bondholders: 5th January, 1987

We, ASICS CORPORATION, hereby notify that, as a result of a free distribution of shares of its common stock to shareholders of record as of 20th January, 1987, Japan time, at the rate of 0.07 share for each share held, the conversion price of the above captioned Bonds will be adjusted pursuant to Condition 5, paragraph (C), sub-paragraph (1) of the Terms and Conditions of the Trust Deed dated 6th July, 1978 from yen 404.90 to yen 378.40 per share, effective as from 21st January, 1987, Japan time.

ASICS CORPORATION
1-1, Minatojima-Nakamachi 7-chome,
Chuo-ku, Kobe-City, Hyogo, Japan

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Call for answers on Suez

By Peter Riddell

THE Labour Party is to press the Government over allegations that Conservative ministers lied to the House of Commons at the time of the Suez crisis in 1956. This follows the partial disclosure last week of documents for 1956 at the Public Record Office under the 30-year secrecy rule.

Mr Bryan Gould, Labour's campaign co-ordinator, yesterday wrote to the Prime Minister asking who authorised the refusal to publish some of the key documents

He noted that Lord Hailsham as Lord Chancellor has ministerial responsibility for public records. He asked if the Lord Chancellor was responsible for the decision and whether this was inappropriate, since Lord Hailsham was closely involved in the Suez crisis

Mr Gould said: "No-one wants the publication of material which might threaten national security. But why, for example, should the British people be kept in ignorance of what is amply confirmed by other sources: that the British Government made a collusive agreement with France and Israel to invade Egypt?"

British growth rate set to rival West Germany's

BY ALAN PIKE

PREDICTIONS of a flurry of activity in the UK economy early this year followed by restraint after a general election are made in two New Year economic reviews published today.

Goldman Sachs, investment bankers, forecasts that the UK may compete with West Germany for the honour of being the fastest growing major economy this year.

Consumer spending is predicted to continue to grow at annualised rates of 4 to 5 per cent in the first nine months, with annualised growth in manufacturing output possibly exceeding 4 per cent for a while.

Unemployment could end the year with the seasonally-adjusted total dropping just below 3m, largely because of the Government's special measures.

Goldman Sachs bases its 1987–1988 forecasts on the assumption of a Conservative election victory this year, followed by sterling's entry into the European Monetary System. It suggests that UK interest rates may fall sharply at some point in 1987 "in a wave of electoral and EMS euphoria."

But inflation trends may prevent gilt yields from settling below 9.5 per cent for very long, and pressure on interest rates may be upward by the end of the year.

Goldman Sachs says slower GDP growth is likely to be needed in 1988 to contain balance of payments and inflation problems. Early forecasts suggest that output growth will halve next year, with the annual inflation rate falling after a mid-year peak of 5.5 to 6 per cent but the balance of payments deficit remaining around £2bn to £3bn ($2.8bn to $4.2bn) a year.

Alexanders Laing & Cruickshank, in its review, says that the recent balance of payments deterioration has brought the spectre of a return to the stop-go cycle which characterised the economy in the 1950s and 1960s.

In the run-up to the general election government spending was being expanded, taxes would be cut and credit growth appeared to be out of control. The costs of this policy would become clear in 1988.

Alexanders Laing & Cruickshank, which also bases its forecasts on the assumption of a Conservative victory and of sterling joining EMS, says that the current "go period" in the economy will be followed by a "stop phase," with the authorities having to react to rising inflation and exchange rate difficulties.

"Already the balance of payments is deteriorating while inflation is picking up – and will continue to do so through the spring and summer. The Government clearly hopes that wage settlements will fall, but with prices rising and unemployment falling the risk is of the exact opposite."

In an article in this month's Lloyds Bank Economic Bulletin Mr Christopher Johnson, the bank's chief economic adviser, says that unemployment could be reduced by 1m over the next five years if present policies were reinforced by measures to restrain pay and prices.

Inflation and the balance of payments were both constraints on cutting unemployment, but they could be dealt with by incomes policy linked to full EMS membership.

Increasing public expenditure, says Mr Johnson, is a more efficient way of creating jobs than cutting taxation.

Political reforms urged

By Peter Riddell

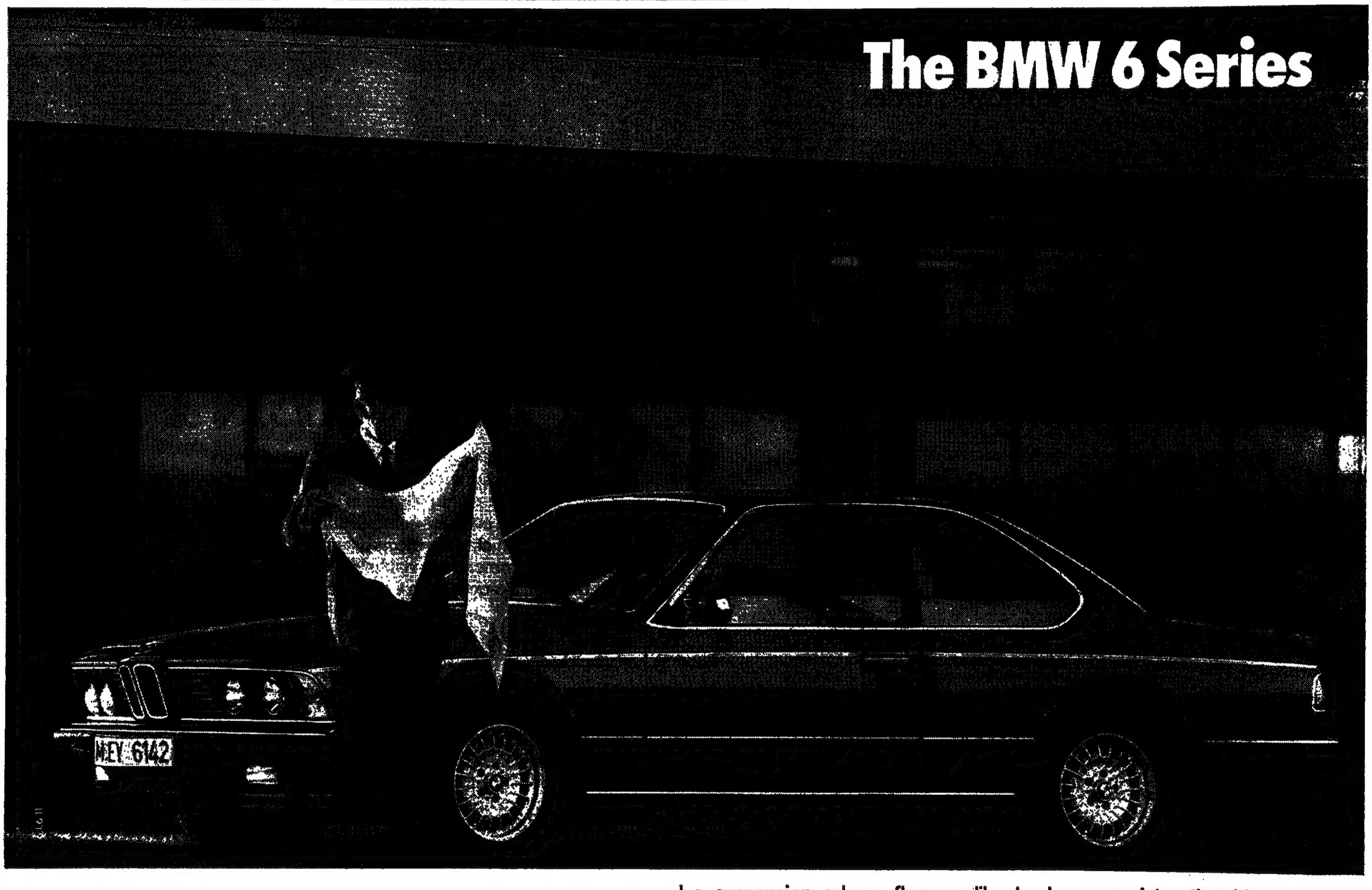
A CAMPAIGN to win the support of businessmen for reform of the British constitution is to be launched later this week.

A letter will be sent to senior managers throughout industry by Sir Peter Parker, chairman of the Rockware Group and other companies. Sir Peter chairs the campaign, which has the backing of other well-known businessmen.

It is an offshoot of the Constitutional Reform Centre, a cross-party body set up in 1985 under the presidency of Lord Scarman to campaign for the reform of current practice in Whitehall and Westminster, and the introduction of a Bill of Rights in the UK.

The aim is to capitalise on support already shown for electoral reform by a wide range of businessmen. Considerable interest in constitutional reform has also been indicated by the activities of the Confederation of British Industry and the Institute of Directors.

Both bodies have produced publications and organised conferences on perceived deficiencies in the present set-up in Whitehall and Westminster.



Wrong.

No doubt the real enthusiasts amongst you spotted our deliberate error straight away. No, it's not the missing rear doors or the chauffeur's newspaper. It's the chauffeur himself who is completely out of place. But perhaps a few of you, who've managed to resist the temptation of ever owning a BMW coupé, may need a little further explanation. Imagine the coupé in the photograph belonged to you. Would you then see any earthly reason for allowing anyone else to sit behind its wheel? After all, what's the point of owning a gas pedal that has 286 hp under the bonnet and then giving someone else the pleasure of putting his foot down?

And how much personal enjoyment do you think you would get from a suspension, whose fly-paper-like handling on winding country roads prompts some strange minds to think of a special tax on such pleasures, if you yourself weren't holding the leather-clad wheel?

Although even we must admit that we have heard tell of some people who've bought a BMW coupé purely for its classic look, and only then have been happily surprised to discover that unparalleled dynamism was also included in the price.

But we find it hard to believe you're one of those motorists who regard ABS anti-lock braking as a piece of electronic chicanery. Surely you're a committed driver who appreciates that it's an essential element of the matter-of-fact safety of a car in this class. And you also realise that, even though a 6 Series BMW can be a source of pleasure for its passengers as well, its true attractions are only ever really experienced by its driver.

That's something that the gentleman in the peaked cap was obviously aware of. When he climbed out of his limousine to lean just once on the car he'd like to drive, as opposed to the car he has to drive.

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MANAGEMENT

BY CHRISTOPHER LORENZ

Eckhard Pfeiffer (left) of Compaq and Howard Moody of the Scottish Development Agency

A tactical victory for 'Silicon Glen'

James Buxton outlines why Compaq Computer set up in Scotland

COMPAQ COMPUTER, the Houston-based company which is probably the fastest growing US computer manufacturer, was only established in 1982. Yet by April 1983 the Scottish Development Agency (SDA) had already targeted it as a company which it wanted to track, with the idea that someday it might come to Scotland.

Last November Compaq announced that it was going to come to Scotland and establish its European manufacturing base at Erskine, near Glasgow, with the possibility of employing 350 people by 1990. For Scotland this meant triumph for a campaign which demonstrates the intense efforts European countries now make to win major inward investment projects. But the story also shows that the final decision was taken according to purely commercial criteria.

The Scottish Office and the SDA were determined to bring Compaq to Scotland once it emerged as a new force in personal computers, set to elbow aside Apple while using IBM-compatible software. If they had failed, it would have been a serious blow to the standing of "Silicon Glen" which already has IBM, Hewlett Packard, Wang, and Apricot in the field of small business systems. Officials also wanted Scotland to have as wide a spread of companies and of risk as possible.

But with the decline over the past few years in the number of mobile investment projects coming to Europe, the competition among the different European inward investment agencies has become ferocious. The obvious weapons are grants and other forms of financial assistance, but EEC regulations impose strict limits on the amount of money each development area can offer. Howard Moody, the man who led the team that brought Compaq to Scotland, says: "We start from the basic proposition that grants only make good projects better, they never *make* projects."

Moody is head of US marketing and prospects for Locate in Scotland (LIS), a joint operation between the SDA and the Industry Department of Scotland. Locate in Scotland recently reacted to the more demanding climate by switching from promoting Scotland as a location in a general way to adopting a far more concentrated approach, targeted at specific companies in specific fields, and emphasising Scotland's particular strengths in these fields.

LIS made its first contact with Compaq in 1983 and made its first formal presentation in April 1984, just as Compaq decided to enter the European computer market. The Scottish team told Compaq about the Scottish information technology industry, which companies were there and what the research base was. "The aim was for them to build up confidence in us, and for us to identify the key decision-makers on their side," says Moody.

As Compaq contemplated where to expand its manufacturing—in the US, Singapore or Europe—Jim Haggarty, the head of LIS's office in Houston—kept in touch in particular with Compaq's personnel and purchasing departments, who were likely to have a lot of influence over any location decision. Meanwhile LIS's Brussels office made contact with Compaq's European headquarters, where the boss was the German-born Eckhard Pfeiffer, senior vice-president for international operations.

Today Pfeiffer says: "They certainly got started much earlier than anyone else and they adopted a much more targeted approach. This made it much easier to get things started when we were ready to consider moving to Europe. Ultimately, I suppose, the early aproach didn't make much difference; the main criteria for making a decision about location are not personal contacts."

Compaq began looking seriously for a European location in 1985, the year its sales passed the $500m mark. As well as Britain, it considered West Germany, Austria and the Irish Republic, and later France, Luxembourg and the Netherlands got into the act. "Compaq put together a team to put the specification together," says Pfeiffer. "They were not totally inexperienced but not very experienced either. So for them it was good to be dealing with an organisation like the SDA which was already in place and pre-conditioned."

LIS concentrated first on satisfying Compaq about the ability of Scottish sub-contractors to supply components for the personal and desktop computers Compaq planned to manufacture in Europe. So it obtained from Compaq detailed drawings of all its components and went to the length of putting them out for quotation among Scottish and UK companies. On Compaq's first visit to Scotland—for five days in September 1985—the emphasis was on seeing potential suppliers.

With Compaq satisfied on that point, the focus moved on. "The key issues they were now interested in were markets and productivity," says Moody. LIS stressed that the UK was expected to be Europe's fastest growing and most advanced market for personal computers up to 1991. Productivity and labour relations in US-owned electronics companies in Scotland are demonstrably impressive.

By January 1986, when Compaq visited Scotland for the second time, the US company had narrowed the choice of location down to West Germany, France and Scotland. The key issue was now finding a site for the factory. Compaq insisted on a highly attractive site, to be occupied only by itself, that would not just be satisfying to work in, but an important marketing tool. It also had to be near a major airport. Compaq had already lined up what Pfeiffer calls "a perfect site" in Lower Saxony, and in France it was being offered a location within site of the Mediterranean. After the January visit Compaq told LIS that the sites it was shown were not good enough.

Moody says: "I realised then that we stood a good chance of losing the contract." Furthermore, he reflected anxiously, George Mathewson, the wiry and highly active chief executive of the SDA, who was following the issue extremely closely, "doesn't readily accept reasons for failure from the man who has been designated as product champion, which was me."

Early in April Moody studied the map and found some better possible greenfield sites. "It was a Sunday and I put my family in the car and drove off to see them." The best was on farmland in the grounds of the Erskine hospital for disabled servicemen in fine landscape on the banks of the river Clyde, yet close to Glasgow Airport. Within a matter of days Renfrew District Council, Strathclyde Regional Council and the hospital had indicated that the SDA could purchase the site for industrial use, though formal planning permission did not come until months later. "It was fantastic co-operation," says Moody. "They all wanted to win it for Scotland."

But what was evidently a drama in Glasgow was seen rather differently by Pfeiffer. "We had confidence in the SDA that this would not be an insoluble problem. We knew they would come back with the right site." The Compaq team saw the Erskine site in April and liked it. Rod Canion, president of Compaq, made a swing through Europe to see the different sites in June.

By this stage details of the *financial package for the £16m* plant were being worked out: these have not been disclosed but include a regional development grant and selective regional assistance. "Our package was by no means the best," Moody says, and Pfeiffer confirms that the Irish Development Agency had been able, because of the country's economic status under EEC rules, to offer more, though by this stage Ireland was no longer in the running.

Rod Canion's visit did not trigger the final decision, says Pfeiffer. From June onwards Compaq pondered what it considered the fundamentals under constant pressure from LIS and the French and West German inward investment agencies which "went to the limits of what could be done."

"But it didn't make any difference," Pfeiffer says. "You go on massaging the different points of advantage and disadvantage. In the end it was a market-driven decision. We chose Scotland because we wanted to be close to the UK market which has the best immediate prospects for us."

The final recommendation was sent to Houston about the beginning of October. Just before 5 pm on November 21 Pfeiffer telephoned Ian Robertson, director of LIS, with final confirmation—just in time to allow Scottish office messengers to deliver the invitations for a press conference provisionally arranged for the following Monday.

Management education

Coursing through Europe

BY MICHAEL SKAPINKER

MARKETING for Non-Marketing Managers. Industrial Relations for Transport Managers. Corporate Planning in Practice. Barely a week in 1987 will go by without someone somewhere in Europe running a management education course.

From the Cranfield School of Management in Britain to the Danish Management Centre to the Hernstein Management Centre in Austria, the number and variety of courses is enough to overwhelm any personnel or training manager.

Leo Steverink knows the problem. He used to be responsible for management education and development at Heineken, the Dutch brewer. Now an independent consultant, he has collected details of all the major 1987 programmes and put them into one book.* It is 479 pages long, and covers around 300 European management education courses. There is a similar guide in the US, but Steverink claims this is Europe's first.

The book gives dates, locations and fees for general programmes for various categories of manager from chief executives down to juniors in their first managerial job. Separate listings are provided for functional management courses, in areas such as finance, marketing and sales, manufacturing, research and development, and human resources.

Criteria for inclusion in the guide are that the programme must take place in one of Europe's major business schools or management institutes, it must be international in its outlook and open to managers from different countries.

Top of the range must be the Management Course for Presidents, run by the Management Centre Europe (MCE) at St Moritz or Films in Switzerland, Lake Como in Italy or Marbella in Spain, depending on the time of the year.

Restricted to presidents of corporations, chief executives, chairmen of the board, managing directors or, generously, general managers, the course covers such weighty topics as leadership and corporate climate-setting, organising the management team, and the social responsibility of business.

The MCE boasts a special feature for this course: "a unique opportunity for the wife of the participating president to spend time with wives of other presidents and share experiences, concerns and approaches to their particular problems and challenges."

Invitation

Not all the courses assume their participants will be exclusively male. The Executive Programme at Insead, the European Institute of Business Administration at Fontainebleau, invites both wives and husbands of participants to come along on the last week of the course, "sharing the conviction that the role of the married partner is of critical importance in mid-career."

The guide contains a separate section on conferences for women managers, including the International Business Women Conference at the MCE in Brussels, and a Business Leadership for Women course at the Ashridge Management College in Berkhamsted, England.

The strangest-sounding course in this section is the No-Nonsense Management Development for Women at Brunel University in Uxbridge. Participants on this programme, according to the guide, will include "managers with female subordinates to be developed" and "managers frustrated with able women subordinates 'refusing' to be developed." One of the objectives of the course is "for women subordinates and their bosses to work in partnership to develop ways of developing female employees." The fee for the course is £650 per pair. Spouses do not appear to be invited to this one.

Places on some courses are harder to find than on others. Participants on the senior management course at France's Centre de Perfectionnement aux Affaires have to be approved by a jury presided over by a member of the Paris Chamber of Commerce and Industry and consisting of members of the school's administration and alumni.

Other schools appear to have a more relaxed attitude. Many make much of their non-academic facilities, such as golf, tennis, badminton, horse-riding, restaurants, libraries and computer facilities. The Irish Management Institute has a closed-circuit television studio and the Roffey Park Management College in Horsham, Surrey, offers early morning tea or coffee in bed.

* *European Management Education Guide, International Management Education Consultancy, Dr Frederick van Eedenweg 35, PO Box 34, NL-1400 AA Bussem, The Netherlands. 285 Dutch Guilders. FL385 for guide plus consulting service. FL 200 and FL 300 respectively for two or more copies.*

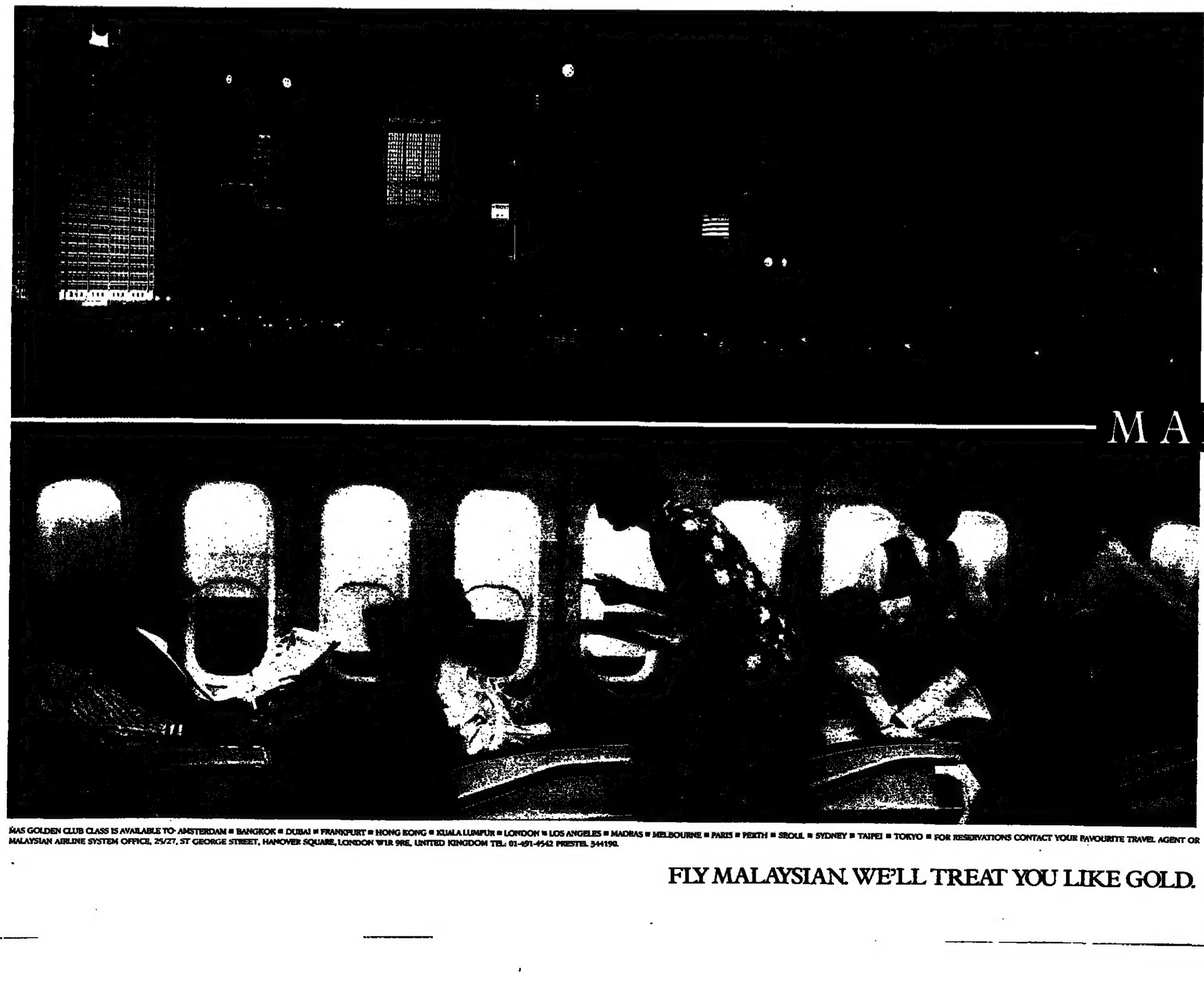
Business courses

Retail profitability 1987, London. February 17-19. Fee: full conference place £425 + VAT; each full day session £171 + VAT; each half day session £85.50 + VAT. 10 per cent discount for bookings paid by January 5. Details from RMDP, 61-63, Ship Street, Brighton, Sussex BN1 1AE. Tel: 0273 203581/3. Telex: 87323 FSI G RETAIL.

Non-destructive testing awareness in design. March 18. The British National Committee for non-destructive testing and the Institute of Quality Assurance. Fee: For members of BNCNDT/IQA/BQA £126.50; for non-members £143.75. Details from the Conference Secretary, IQA, 8-10, Grosvenor Gardens, London SW1 0DQ. Tel: 01-730 7154. Telex: 8950952 QAINF-G.

Management accounting, Brussels. February 23-26. Fee: Non-members BFr 82,700; members (AMA/I) BFr 74,400. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11. Telex: 21.917. Telegrams Manacentre. Telefax: 32/2/513.71.08.

Just in Time . . . *a conference* on the evaluation and implementation of the "Just in Time" objective, London. March 2-3. Fee: £488.75. Details from the Conference Secretary, David Hutchins Associates, 13-14 Hermitage Parade, High Street, Ascot, Berks SL5 7HE. Tel: 0990 28712. Telex: 847738 DHAQIC G.



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Letters to the Editor

Subsidies for export credit

From the Director, Trade Policy Research Centre

Sir,—In attacking Christian Tyler's piece about subsidised export credits Peter MacGregor (December 28) expresses a great deal of frustration, for he apparently thought the issue was dead — just because it appears the British Government has not accepted the arguments of the Byatt report.

It is clear from his letter, however, that Mr MacGregor has not read the article — it was not a pamphlet — by Patrick Messerlin in the December issue of The World Economy, the *quarterly journal* of this centre, which prompted Mr Tyler's piece in the first place.

Mr MacGregor ends by doubting "if the French are stupid enough to pay attention to the professor." Well, Professor Messerlin begins his article by reporting that the French debate on the issue, confined at first to those directly involved, burst into the financial Press *when, in September* 1985, France's Ministry of Finance announced its willingness to take advantage of an expected decrease in interest rates to reduce progressively the scale of subsidies to export credits.

Professor Messerlin adds straightaway that "most banks reacted immediately to this proposal by expressing their concern at the 'excessively' rapid modification of the rules of the game and by arguing that the British, rather than reducing their subsidised export credits in 1985, were expanding them." "Ironically," he remarks, "the British Government justifies its policy *by referring to the continued* subsidisation of export credits by France."

Debate in Britain on the issue might be better informed if more were known about the debate in France where, since the beginning of 1984, there have been no less than four official studies on export credits. One, by Professor Messerlin, entitled "Commerce extérieur, risque et politique commerciale," was prepared in 1984 for the *Commissariat Général du* Plan. The other three were confidential reports prepared in 1985 for the Inspection Générale des Finances.

In his article in The World Economy, prepared at the Service d'Etude de l'Activité Economique at the Foundation Nationale des Sciences Politique (which is not in London), Professor Messerlin says "the debate in France started almost entirely as a consequence of the increasing cost of export credits to the public budget. According to official figures, the cost of subsidising export credits to the French budget was FFr 2.4bn in 1978, FFr 6.6bn in 1980, FFr 13.0bn in 1982 and FFr 11.2bn in 1984. In 1984, the cost represented 6 per cent of the public-sector deficit, which the Government has been trying to limit to 3 per cent of the gross national product."

Mr MacGregor's swipes at economists are like water off a duck's back. Is he, though, denying the public's right to know the costs of public assistance to particular industries, which is *what the debate is* about? If not, then those costs need to be assessed on an objective basis, a task for economists. The costs can then be set against the benefits, which spokesmen for the assisted industries can tell us about, enabling the Government *to decide in the public interest* whether the assistance should be increased, maintained, reduced or whatever.

Hugh Corbet.
1, Gough Square, EC4.

Ranking and values

From Mr P. Drexler

Sir,—In a recent leader (December 11) you refer to Britain as "the world's 19th economic power." Even allowing for the commendable English habit of understatement, this would seem to be an excessive demotion. You are most likely referring to per *capita* income. While *Liechenstein*, for example, surpasses Britain on such *measurement, its national* economic power may still be considered inferior to that of the UK. According to World Bank figures on total GNP — a *more accurate indication* of national economic influence — Britain ranks number six in the world. Many Americans, who value such intangibles as liberty, decency and tradition, might rank Britain's influence a bit higher.

Paul H. Drexler.
98 North Hillside Ave,
Chatham,
New Jersey 07928, US

Reform of the rates

From Dr F. Smith

Sir,—I refer to your helpful editorial (December 22) and the comments by P. E. Rigby (December 27).

The trouble with rates is that they are too direct; we can actually see what we are paying. When we pay rates we are returning to the community the benefits we have in return for the use of land and space — scarce and limited as they are — and whose value is created by the *community. Own a house* for example in the south-east and see its value rise by 20 per cent in one year; live in the north and see it rise by 10 per cent. Was it something you actually did? No, it was the increase in land values.

Thus the tax on property would be a fairer indication of benefit received if regular valuations took place. It seems at first sight a good idea to base this very reliable tax on capital values but it would of course erode the capital value with time thereby forcing up the rate in the pound and so on. Capital values are moving up rapidly at the moment; would we really want our rates tied to them?

No, we come back to annual rental values as a sensible basis. But it would be more sensible to base it on land values only (and space values in city centres where appropriate) rather than on buildings. This way we would not penalise initiative in house improvement any more than we would penalise business expansion. The land rate is the only tax which *does not* penalise initiative and cannot be passed on.

Your business correspondents do not yet appear to realise this but the non-creative land-owners do.

(Dr) F. M. Smith.
16 Whitehall Close,
Wilmslow, Cheshire.

Aid in the Sudan

From Mr G. Thomas.

Sir, — Robert Barr's article "Afternoon in Tegwilo" on food aid distribution in the Sudan (December 27) is a fascinating account but he fails to emphasise another aspect of the situation, namely the multiplicity of agencies in that country.

I have just returned from an extended visit to the Sudan, a country which I have known for 36 years. I met many of the Ministers, including the Prime Minister, several times and we discussed in some depth the problems of famine relief. They are *profoundly grateful* for all the support the country has received, nevertheless the fact that there are nearly 90 agencies involved in the Sudan has presented difficulties.

When the new democratically elected government took office in May it found that many of these agencies were almost autonomous organisations within the state. The result was much duplication and indeed *even competition to distribute* food in some areas, while other regions in need were totally without supplies.

Most of these agencies have their own direct communication with their own headquarters outside the Sudan, and no self-respecting government could be expected to permit such missions to operate freely within their country without any reference to that country's administration. Indeed, some agencies had reached the stage of considering that they and their organisations were extra territorial, and had immunity for their actions. Naturally when the new government attempted to bring some co-ordination and supervision among the welfare agencies some resentment and resistance was experienced. In fact some foreign embassies not only objected, but stated that "all aid would be withheld unless complete freedom was allowed to the agencies." This led to some friction but the Sudanese Prime Minister emphasised that the French, German and Italian Governments had been "most helpful" and appreciated the situation.

It must be understood that these agencies are not only from the West but emanate from the whole world, to put it plainly, attitudes to aid differ widely and not all governments are without self interest. Furthermore with the bitter war in the South, there are those who wish to see the whole area destabilised.

As Mrs Thatcher pointed out in her speech of welcome to the Sudanese Prime Minister Sadig el Mahdi, on his recent visit to Britain, his is the only freely elected democratic government in the whole of Africa—and she might have added the Middle East. This newly emergent democracy needs all the help and support which it can receive, but we must accept that it is a free, sovereign and independent state.

It is to be hoped that all the agencies and their representatives will appreciate this point and the sensitivities involved.

Graham F. Thomas,
14 Honorwood Close,
Prestwood,
Great Missenden, Bucks.

Showing the gold card

From Mr A. Horne

Sir,—I wonder if Mr Weiner (December 24) is correct in his analysis that possession of a *gold credit card advertises* that one can afford one, two or more overdrafts. I am more inclined to the view that it simply advertises one's gullibility — why else would one pay £50 or more to obtain instant overdraft facilities. Personally, I have always found a second class stamp quite adequate expenditure to obtain whatever overdraft level I want!

Andrew J. Horne.
Flat 5,
19 Beaufort Gardens, SW3.

CHEMICAL INDUSTRY

Schering cultivates strong base for expansion in agrochemicals

BY LESLIE COLITT IN BERLIN

FITTINGLY, when senior executives of Schering, the West German pharmaceuticals and chemicals company, meet the public on their home ground in West Berlin, the amosphere is clinically efficient. Small talk is dispensed with in milligramme doses.

But when board member Dr Christian Bruhn travels to the UK for a presentation together with Mr Terry James the chairman of the group's UK offshoot Schering Holdings, the Anglo-German bantering knows no end.

Dr Bruhn, whose responsibility includes Schering's UK operations, is a confirmed Anglophile. Mr James sometime wishes his superior would be a bit more "assertive" and would thump on the table once in a while.

Speaking to the visiting German press recently, Mr James raised a big laugh when he noted that if the figures he gave differed from those of Dr Bruhn it was only because "I run the company. Dr Bruhn is a member of the board and is my boss — so his figures are right."

Schering made its first real mark on the UK in 1983 when it acquired FBC, an agrochemicals joint venture of Fisons and Boots. In one stroke Schering became a force to be reckoned with in the international agrochemicals business. By last year, Schering Holdings—which includes agrochemicals, industrial chemicals and health care—ranked third by sales out of the Schering group companies after Schering AG, the parent, and the US subsidiary.

FBC's takeover was initially criticised by some UK shareholders as not conforming with Schering's sound track record. The company's recent international expansion has meant that only 17 per cent of sales are now in West Germany. Through the FBC acquisition it has doubled agrochemicals sales as well as research facilities and has moved up to 11th place among agrochemicals producers internationally, and market leader in the UK where it has 13 per cent of sales.

What might have been an upset for FBC's executives and its more than 2,000 British employees turned out to be something of a boon. On the executive level Dr Roger Corbett, managing director of Schering Agrochemicals, noted that the takeover *was* treated by Schering in Berlin as more of a merger. This *surprised* the British who had expected replacements at the top.

Mr James remained chairman while Dr Corbett and Dr Mike Smith were co-opted into the management of Schering's agrochemicals division in Berlin. It was a tribute to the importance

SCHERING SALES AND PROFITS

(IN D-MARK)

	Group Turnover	Group Earnings	Parent Earnings	Dividends percentage
1983	4.3bn	80m*	76m	21
1984	4.8bn	130m	91m	24
1985	5.1bn	173m	112m	24

* *Down 22 per cent, largely as a result of the FBC takeover*

of FBC (renamed Schering Agrochemicals last year), which *makes up 40 per cent of Schering's* agrochemicals production and continues to be very profitable.

The main difference in management style between West Berlin and Chesterford Park, both Mr Corbett and Mr James agreed, was that Schering AG *searched for consensus* agreement among its directors while Schering UK, which had to fight for survival as FBC, was more tightly run from the top. Both men admitted they would like to see an "assertive leadership" from Schering in Berlin instead of having it spend so much time on reaching compromises.

Agrochemicals sales in recent year have expanded to the point where, last year, they contributed DM 1.4bn to Schering's turnover compared with DM 2.1bn for pharmaceuticals. Nearly 90 per cent of agrochemicals sales are outside of West Germany with the UK subsidiary providing two of the best sellers, Sportak, the grain fungicide and Apollo, an acaricide used in fruit orchards. These contributed strongly to the company's agrochemicals earnings.

Both products were developed at FBC's Chesterford Park research and development facility and are produced at Hauxton, Cambridge, where new £5.5m Apollo *installation* was built last October. A £13m plant is being built at Widnes, Cheshire, to produce Sportak.

The new investments and the corporate identity which Schering has given the former FBC has reaped rewards in a relatively short time. Motivation *is strong* among the 450 Schering UK research and development staff which see the West German parent company placing a premium on their talents. On the production side, however, rationalisation is proceeding apace and may lead to elimination of less skilled jobs.

The fall in the sterling/D-Mark exchange rate will result in Schering Agrochemicals showing a drop in sales this *year on translation in the parent* company's balance sheet although turnover has risen in local currency terms.

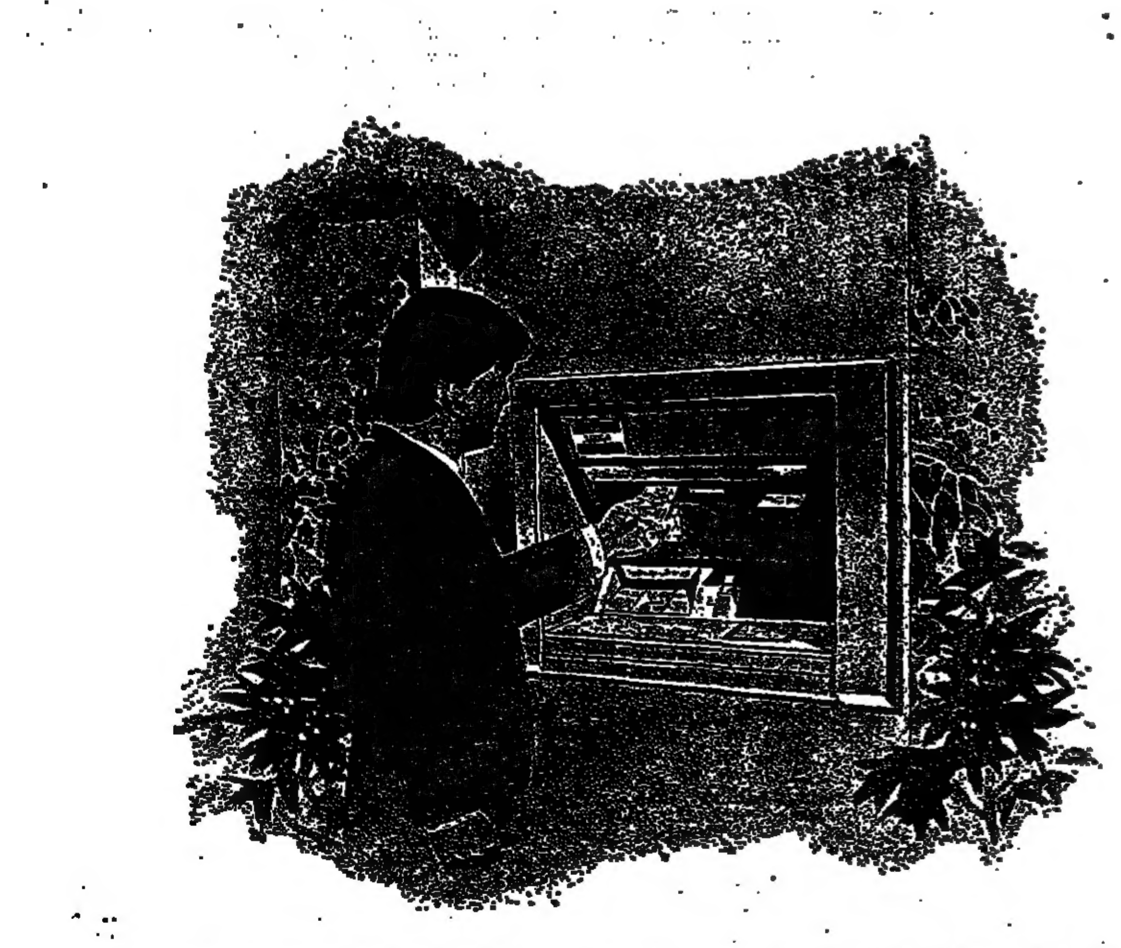
Last year the UK subsidiary sold agrochemicals worth £124m —70 per cent for export. Schering's other activities in the UK accounted for £59m of *the £180m total turnover.* Total sales in 1984 were £159m.

A 12 per cent fall in pharmaceutical sales by Schering in the UK by the end of last August led *Dr Bruhn to complain about* "extremely restrictive" cost reduction pressures on pharmaceuticals companies in the UK by the Department of Health and Social Security. Small wonder that Schering is seeking to break into the US market with its contraceptive pills which cost some $10 a packet there compared with 85p in the UK.

Schering has only 1½ per cent *of the US agrochemicals market* compared with 12 per cent in major European countries. Thus Schering regards the US and Japan as its main targets for medium to long range expansion which must be financed by European earnings from Europe.

Schering *group* sales in the first 10 months of this year untypically declined 8.4 per cent to DM 3.9bn because of the fall in the dollar and sterling. *Dr Horst Witzel, Schering's* chairman of the board, said that while group earnings this year would be "somewhat less" than in 1985 he was confident the parent company's profits would equal last year's. Schering has a habit of understating its earnings prospects.

MAN'S LANDMARKS



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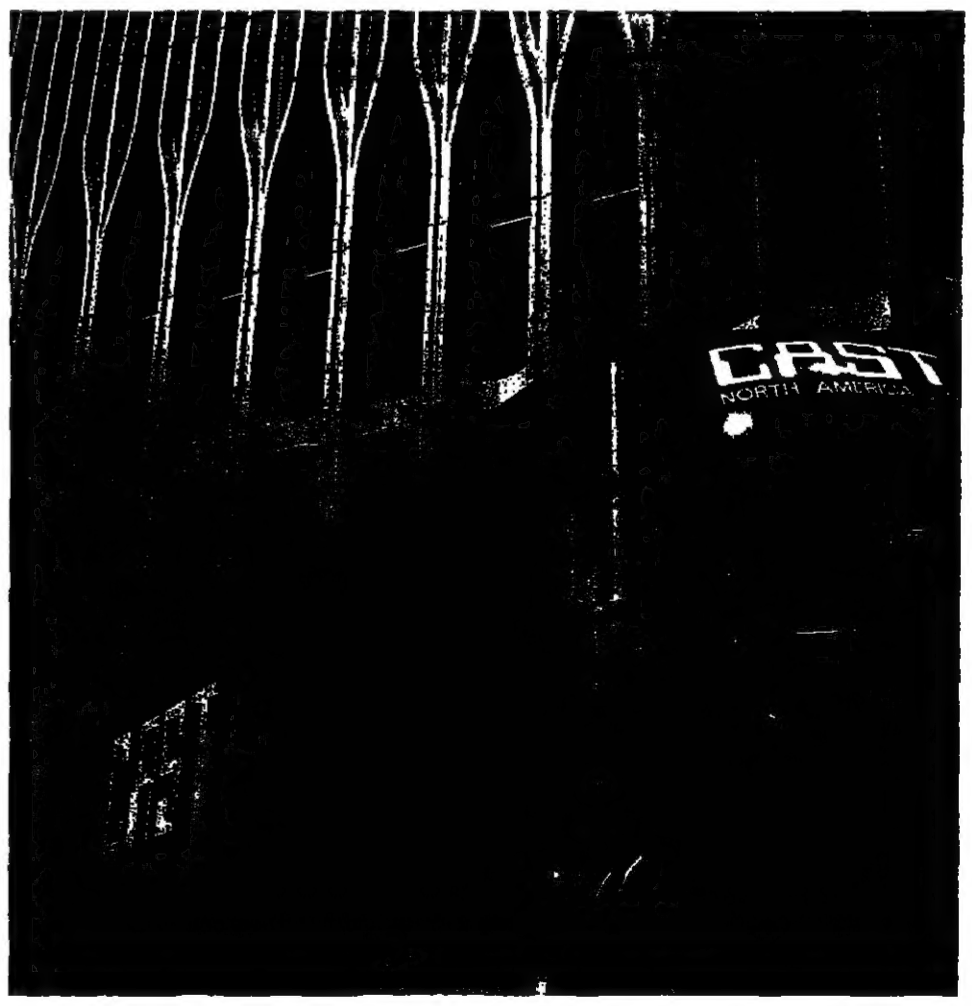

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THE MONDAY PAGE

Ashley Ashwood

INTERVIEW

Short termers, short shrift

Chancellor Nigel Lawson talks to Philip Stephens and Geoffrey Owen

SHORT-TERMISM was a phrase often heard from Nigel Lawson in the closing months of 1986 and we can expect to hear it many more times in 1987. This supposedly British weakness was very much on the Chancellor's mind in a New Year interview with the FT.

He dealt with the prospects — good he says — for the economy this year, dismissed suggestions that he disagrees with Mrs Thatcher on policy towards sterling and interest rates and said his long-term goal remained a zero inflation rate.

He also indicated the themes for a Conservative third term: cuts in the basic and, perhaps, in higher rates of tax, more privatisation, a further widening of share ownership, incremental but not drastic reductions in public spending as a share of national output.

But it was on short-termism, in industry and finance, that Mr Lawson seemed most anxious to get his message across. It was also the one area where this supremely confident — his critics say arrogant — Chancellor suggested that he had not yet come up with all the answers.

"I have thought very hard about this, about whether there is anything government can do and if anybody has any suggestions I certainly would be happy to look at them," he said. He hopes something will come of the CBI initiative to improve relations between the City and industry.

Short-termism can be blamed for a lot of things; for industry's reluctance to put more money into research and development or to invest enough to keep up in the technology race; and for perhaps the most serious problem—the failure of industry to control its wages bill.

It is the latter problem, and the implications for competitiveness, that is behind gloomy forecasts that Britain could face a large and widening trade gap.

The threat, although there have been some encouraging signs recently from the CBI's pay data bank, is that industry will throw away the competitive gains resulting from the sharp depreciation in the pound's value. As a result, prospects for the unemployed, many of whom have been effectively pushed outside the labour market, will remain bleak.

"Competitiveness is about the quality of British management and there is obviously a worry there," Mr Lawson said. He had seen signs of improvement over the last few years, but said there was tremendous scope for further advances.

"And that really is the key to our long-term success. I have absolutely no doubt about it . . . We have created the conditions now which enable managers to manage. It really is up to them." And then: "I'm not telling the unions to behave in a different way. I'm talking to management."

This sort of exhortation—a feature of the Chancellor's speeches—has provoked sarcasm among some of his critics. They find it strange that someone committed to the free operation of markets should lecture industry on its shortcomings.

Mr Lawson was unabashed. Governments were not simply there to get acts of parliament on to the statute book, he said. "The job of government is also the job of political leadership, to try to make people think of acting in ways that they are not acting at the present time." That, after all, was what ministers were trying to do with the campaign against AIDS.

He could, in a limited way, help to push the process along. One way would be to encourage profit-related pay through tax incentives, an idea floated in the last Budget. Over the past few months the impression gained ground that he was less disposed towards the idea than he once was. But the Chancellor insisted he had not changed his views. So could we expect something in his next Budget?

"I haven't reached a conclusion because it is too early in the season to reach a conclusion. But my views are in no way changed from the views I put forward when I launched the idea."

Intervention, though, had strict limits. Mr Lawson would have no truck with the suggestion that, temporarily at least, some form of incomes policy was needed to get a steep reduction in the pace of pay deals—perhaps, as Professor Richard Layard advocated, a tax-based policy.

"We have been through all that and it simply doesn't work." But that was not his only objection. Incomes policies had been damaging, a cause of atrophy in British management. They had taken away its right to make crucial decisions about how to reward different skills, or choose the right mix between men and machines.

"That," said the Chancellor, "is why I would not touch them with a bargepole."

One area where the Government could act was in that of civil service pay. In bargaining before next April's settlement the Chancellor seemed determined to set an example by establishing regional pay differentials. Such differentials, the topic of heated debate with the trades unions, were seen by Mr Lawson as a way of promoting employment in Britain's most depressed areas.

"I hope that in this coming negotiation we can, for the first time, make a significant move in the direction of regional pay variation in the civil service. . . . Certainly we shall try."

He was not prepared to provide a financial incentive for the private sector to do the same; for example through a differentiated system of national insurance contributions to favour employers in the regions.

To an extent the graduations in the existing system already did that, he said. But to introduce specific regional variations would be impracticable. "There would be all sorts of problems and arguments as to where to draw the line." He was reluctant to put too much weight on altering the tax system as a way of changing behaviour—except where the changes went with the grain, as with profit-related pay.

The recurring theme of short-termism surfaced again in the discussion of wider share ownership and privatisation. Precise figures were not available, but he thought the number of individual shareholders had about trebled since 1979.

The political and social rationale behind the drive for more shareholders has been well rehearsed. The Chancellor sees a link with the need to counter short-termism.

It was here that he made a controversial suggestion. The Stock Exchange should relax its rules to allow quoted companies to raise additional capital directly from new shareholders rather than through rights issues or placings.

The idea is that household names should be able to follow in the footsteps of British Telecom and British Gas and appeal directly to the private investor. The existing system of rights issues or private placings simply reinforces the present pattern of share ownership—with the institutions holding the dominant share.

"What we have demonstrated is that if you have a company with something of a household name and suitable for small investors, then do a certain amount of advertising . . . you can get a huge increase in the number of shareholders."

Such shareholders, if treated well, could help rid companies of some of the pressures to produce short-term results. "Because I think that if there are short-term operators they tend to be the financial institutions—ironically, the pension funds." This was not an area which needed legislation. It was up to the Stock Exchange to take the initiative.

The discussion turned to shorter-term considerations, to sterling and interest rates. The perception had got around that the Chancellor sometimes differed with his neighbour at No 10 about how to react if the pound fell.

Was Mrs Thatcher more of a free-marketeer when it came to the exchange rate, was she sometimes more reluctant than the Chancellor to put up interest rates to defend the pound?

The Chancellor insisted there was no difference. "The Prime Minister does not like putting up interest rates and nobody likes it . . . But this has been a Government that has been prepared to do things that are unpopular if it believes they are necessary.

"You discover what a government's policy is by looking at what it does," Mr Lawson added. A downward adjustment in sterling's value was necessary when the oil prices collapsed. But, that aside, "we have never actually allowed the pound to take a dive . . . on the occasions it has fallen significantly we have moved interest rates up to arrest it."

The oil price adjustment was over and "I do not want it (sterling) to fall any further."

Finally, Mr Lawson spoke of tax cuts and the Government's priorities if it won a third term. He re-iterated his target of a 25p basic rate of income tax. If national insurance contributions were added, that would leave an average marginal rate of 34 per cent—"quite high enough."

Despite his recent attempts to downplay expectations, the City thinks he will get half-way there in the next Budget by cutting the basic rate to 27p.

And what about the top rates? A recent parliamentary answer showed that the top 10 per cent of wage earners had seen their after-tax incomes rise by about 20 per cent in real terms since 1979. The bottom 10 per cent had had an increase of about 3 per cent.

Mr Lawson pointed out that the figures showed that everybody was better off. He then quoted P. T. Bauer: "You don't make the poor rich by making the rich poor." In 1979 Britain's income distribution was among the most compressed of any industrial country, a situation which was damaging the economy by encouraging tax avoidance and discouraging enterprise.

Trends in other industrial countries meant that, at 60 per cent Britain's top rate of tax might still be too high. "I think we may very well, particularly if you look at what's happened in America, we may well need to bring our top rate down further."

Mr Lawson also saw the prospect of further tax reform along the lines of last year's Green Paper. He admitted, though, that while the responses to the paper had shown almost universal disapproval of the present system, far from everybody agreed with his proposals to replace it.

Some things, however, would remain off-limits—abolition of tax relief for mortgage interest payments was one. Mr Lawson, who appears less enthusiastic about this particular subsidy than Mrs Thatcher, nonetheless said that advocates of removing it exaggerated the economic benefits and tended to minimise the upheaval it would create.

He saw the rehabilitation of the private rented sector as the biggest priority in housing.

At the same time, the Government's efforts to reduce public spending as a share of national output—dented by last November's decision to raise spending targets over the next two years—would be progressive rather than dramatic.

That did not mean the Government would not be radical, the Chancellor insisted. "We've been a pretty radical government for the last seven years and will continue to be."

Privatisation would continue—and the Chancellor rejected suggestions that it was wrong to privatise British Gas as a monopoly. There was a case for a series of regional monopolies instead of one national one, "but you still wouldn't be introducing competition and it would have been an enormous upheaval for, at best, a minor gain."

In electricity, by contrast, he could conceive of competition on the generating side, which did not have to be a monopolistic utility like transmission and distribution. "Whether it is practicable or not I don't know, but it is something we are going to look at."

Chez l'international traveler.

The French have a word for it: Meridien

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A new look at the doomsday book

POPULIST forecasters on both sides of the Atlantic have made a pretty good living in the present economic cycle — and indeed most others — by predicting the collapse of the world banking system.

Sadly for the prophets of doom, more sophisticated folk have been doing their best to spoil the market by arguing that the world simply does not work like that any more. At the first hint of trouble, they claim, central and commercial bankers will repair to some palatial hotel in one of the world's more temperate zones and agree a rescue formula.

This usually involves a combination of looser monetary policy and an informal understanding that bank regulators will turn a blind eye while the bankers fiddle their accounts and the auditors, true to form, fail to notice. Should the depositors cease, in extremis, to believe the fiddled figures, the central bankers can be relied on to prop up any bank whose collapse threatens the system. Q.E.D.

It has to be said that, on recent form, the sophisticates have had the better of the argument. Despite the Latin American debt crisis, the growth of curious techniques of off-balance sheet financing and the determined attempts of issuers of "junk" bonds to wreck the financial system, the system has survived. Yet in a year when Federal Reserve chairman Mr Paul Volcker's term of office comes to an end, it is worth asking whether the prophets of doom may not stage a come back.

Let us start, then, with the common ground between the optimists and the pessimists: the financial system is undeniably creaking. Looked at historically, it all started in the 1960s with the development of the wholesale money markets, which permitted banks to finance any amount of asset growth without constraint.

Since the resulting bank debt, both domestic and international, carried floating rates of interest, banks were no longer so vulnerable to the vagaries of monetary policy; they simply passed the pain in any credit crunch to their customers.

The last fatal flowering of asset-led growth came with the petro-dollar episode of the mid-1970s, in which the commercial banks recycled the oil producers' financial surpluses to the less developed countries without bothering to check whether the borrowers were able to service the loans.

The end came when Mexico announced in 1982 that it was

unable to stump up, thereby threatening to undermine the world's biggest banks, which were arguably insolvent on the basis of any realistic valuation of their loans.

It was at this point that the rules of central bankerly prudence came under pressure. As most readers will recall, Mr Volcker decided there was no point hanging around for Mexico and its bankers to go bust. He told the banks to carry on lending while he took the brake off US monetary policy.

This appeared to fly in the face of the central bankers' long standing concern about "moral hazard," which requires lenders of last resort to confine their emollient gestures to the depositors, while penalising shareholders and sacking managers.

The commercial bankers who led the charge into Latin America looked suitable cases for treatment. Yet nobody, to take the obvious example, sacked Mr Walt Wriston of Citicorp. In contrast, the borrowers were punished (well, up to a point) by the IMF.

The world's bankers have, predictably, drawn a hazardous moral from the tale. Provided they hunt in a pack and play with big enough numbers, they can compete as ferociously and imprudently as they like in an increasingly deregulated banking environment. Because they are now less creditworthy than their larger clients, they are losing better quality business to the markets.

So they are forced to invest in higher risk assets and, since many of those assets live in a shadowy off-balance sheet world, the regulators find it hard to keep tabs on it all. In short, everything in the system is urging the bankers to commit folly. Bring on the lenders of last resort.

So far—leaving aside the row over Johnson Matthey (Bankers) in Britain—they have performed creditably. The run on Continental Illinois in the US was well controlled by the federal authorities. In more esoteric vein, a threat last year to Bank of Credit and Commerce International arising from a staggering near-$300m loss on option trading, was quickly neutered by a subvention from a major shareholder. He was generally assumed to have been a member of the ruling family of Abu Dhabi.

But here is the catch. At moments of crisis for the world system as a whole it has been Mr Volcker's seasoned hand on the tiller. His term expires in August. Another Fed veteran, Mr Henry Wallich, is being forced to retire by ill health, while Mr Emmett Rice is leaving four years before his due date. Several senior staff members have also departed.

As American economist Mr David Hale has pointed out, there is a growing possibility that the entire Federal Reserve Board will soon consist of people appointaed since 1984. There is an obvious risk that a troubled Administration will place a higher priority, in its recruiting, on political affiliation than experience or intellect.

With much of the task of financial intermediation taking place outside the banking system, it is conceivable that the potential crash of 1987 could start in the newer securities markets—yet securities watchdogs have no tradition of acting as lenders of last resort. Their time-honoured method of preventing contagion is to throttle the errant member of the flock.

To wipe the floor with the prophets of doom the optimists therefore have to answer two questions. Will the gentlemen in the palatial hotel in the temperate zone be up to the job next time? And will they include in their ranks those who have adequate power, information and inclination to handle a crisis that may not have arisen in the monetary sector?

If on either score the answer is less than wholly convincing, the doomsters may nonetheless be deprived of full satisfaction, for it remains highly improbable that the financial system will collapse. The message is rather that the bale-outs will be more messy in future—an unseasonable thought, but preferable to doom.

John Plender

Privatisation revisited

JUSTINIAN

THE LEGAL profession has shown nothing more than a passing interest in the principle or processes of privatisation. Its concern has been confined to what may happen by way of compensation to the shareholders if ever British Telecom or British Gas were to be renationalised under a Labour administration.

But the prospect of an imminent report from the select committee on home affairs—at least from a majority of its members—recommending that private enterprise has a role to play in the United Kingdom prison system may send shivers up the spines of many criminal laywers whose clients are the guests of Her Majesty's Prisons.

In countering the prison service at all points of the system, from prison cell to court security, frequently presents the prisoner and his legal adviser with problems that are not always readily soluble. But if the prisoner was kept in the custody of a private prison system, who knows what additional problems of compliance with minimum standards of prison treatment may lie ahead?

Not all the facets of involvement by private enterprise in the prison system would alarm lawyers and their prisoner-clients. One form of privatisation, directed simply to reducing the cost of the prison building programme—estimated currently at £400m by 1990—would be for private enterprise to be licensed by government to build new prisons and then lease them back to central government.

Historically, local prisons were in private hands. In the 18th century gaolers "charged excessively for better food than that normally issued, for the privilege of walking without chains or for fresh water. Special charges were even made for turning the key." The private system gradually came under national supervision and uniform control in the 19th century and fully disappeared under the Prisons Act 1877—the first nationalisation in Britain. At present there is no present financing of prison building in the United Kingdom.

There are, moreover, no privatised services within a penal establishment. Services such as laundering and catering are carried out by prisoners themselves under the supervision of prison staff. Other services, such as social welfare and education, are provided by the Probation Service and local education authorities respectively by secondment of their personnel to prison administration. Medical services are provided by a prison medical service.

The most radical proposal that would fundamentally affect not just the prison system but the whole edifice of criminal justice would be the privatising of the management of prisons.

Any government has a responsibility to protect the public and to punish offenders. The prison system is an essential segment of the whole criminal process, from the investigation of crime, to prosecution, conviction, imprisonment and post-release care through the parole system. It would be awkward, if not socially unacceptable, to detach the management of prisons from the integer of the whole system.

Prisoners moreover are in the custody and care of government for the purpose of executing the orders of the criminal courts. As such they must be protected from other prisoners and from prison staff. It would be vital therefore to provide a monitoring service (by elaborate inspection) and supervision (by the Home Office) of private prisons. Indeed, it would have to be so elaborate in terms of manpower and financial resources and possibly by enforcement through the court process that the cost would be heavy. So heavy indeed as to make the whole enterprise an idle, but disruptive exercise.

The legal profession in particular would not look kindly on having to fight their clients' battles with a private contractor. If there was no satisfaction from the private contractor about a whole range of problems—facilities for interviewing remand prisoners, access of prisoners to courts for trial and other legal proceedings, the escorting of prisoners from prison to prison or to hospital and other facilities, the ability to defend prisoners on disciplinary charges (even supposing the contractor were not to be given disciplinary powers at all, but merely to facilitate a judicial process within the prison)—lawyers would quickly seek remedies for their clients in the courts.

If the privatisation of prisons becomes a proposition that is attractive to some politicians and even Ministers, the legal profession is likely to be very vocal in opposing it. Penal policy has always been influenced by legal opinion. Prisons in particular have in the last few years become, with a novel intervention by the courts in England and the powerful impact of the European Commission and Court of Human Rights, a matter of deep legal significance. Many more lawyers have extended their traditional familiarity with the criminal justice system to the prison system.

THE ARTS

Restoration/Colin Amery

Revealing Michelangelo's genius

Two days before Christmas I found myself rising slowly in a cage, concealed from the gaze of the curious by a decent curtain of sacking, to the ceiling of the Sistine Chapel. It was one of the most exciting moments of my life—a generously arranged visit by the restorers of the Vatican museums—to observe the progress of the cleaning of the Michelangelo frescoes.

The lift delivers you to a specially designed scaffolding bridge that is a reconstruction, using modern materials of the structure designed by Michelangelo. It spans the chapel in the form of a stepped arch—this allowed the artist to paint the *Prophets* and *Sibyls* from the side steps and to paint the ceiling panels and the *ignudi* from the centre platform. To be able to walk up to the lunettes and reach out to the face of Adam on the ceiling is a glorious privilege.

It is an oddly moving experience too, mainly, I think, because you are surrounded by the paraphernalia of the expert restorers. Seeing the ceiling lit by suddenly bright lights is like being one of those Lilliputian figures trying to tie down the giant Gulliver. You are dwarfed, not by the proximity alone, but by the sense of the immensity of the labour. We know that Michelangelo wrote to his friend Giovanni da Pistoia in 1510, when he was about halfway through,

"I've given myself a goitre from this strain,
My beard toward Heaven, I feel the back of my brain
Upon my neck . . ."

And yet the one thing that the cleaning has revealed — and this is perhaps only seen from close quarters — is the ease, the simple strength of the brushwork and a sense of vigorous *enjoyment* of the powerful process. You know that you are face to face with genius, and the current cleaning has revealed that it is a new genius, a master not simply of sculptural form — we all knew that — but a dazzling and brilliant colourist with a Mannerist palette of audacious freshness.

There have been other cleanings of the Sistine Chapel. This one began in 1980: it is now about halfway along the ceiling and, with the *Last Judgment* wall, is expected to last until 1992. The records of earlier cleanings are not satisfactory but it is clear that two, one by Lagi in 1625 and one by Mazzuoli in 1710-1713, had the most effect on the frescoes as we see them today.

Lagi was the "resident gilder" at the Vatican and he describes how the dirt was removed by scrubbing with linen rags and bread. The Mazzuoli restorations were more damaging, using Greek wine to remove dirt and grease and applying a glue varnish to "revive" the frescoes, as well as certain repainting and applications of gesso and colours. There is very clear evidence that the application of a variety of substances in the past restorations has in fact darkened the colours and muted the impact of Michelangelo's frescoes.

I was able from the scaffold to compare panels that had been restored with those undergoing cleaning and those yet to be touched. Looking at the *Temptation and Expulsion from Paradise* and the surrounding four naked male youths, an area half cleaned at the moment, it is possible to see the full effects of 400 years of candlegrease and incense.

Some of the half-cleaned youths have one blackened leg and one glowing warm pink. The cleaning has revealed the flesh, of which there is so much in the Sistine, to be a lightly coloured veil over monochrome modelling. The brush had clearly been pressed by the fingers so that the bristles were separated allowing the ground to show through the colour. There was no room for any second thoughts and the whole secret of *buon fresco* — the application of colour to the damp plaster — depends for its success on speed and sureness of touch.

To see the almost cross-hatched brushstrokes that mark the flesh combined with areas of dense colour, and then sometimes a more marble-like finish to the flesh tones, is to understand the courage of the sculptor/architect Michelangelo in undertaking this work for Pope Julius II.

It takes almost as much courage to undertake so thorough a restoration and cleaning. This work has not been without its critics. Some say that the removal of the veil of dirt, which always made you see the frescoes as though through dark glasses, has taken with it some of the *chiaroscuro* (literally balance of light and shadow). There are also complaints that the chemical detergent is melting the dry (*secco*) finishing touches.

Some critics attack the Vatican restorers for being mere "technicians," unable to know where to stop. Many of the protests come from a number of historians who have for years taught about the dark restraint of Michelangelo the painter. They will have to eat their words. The evidence about the Vatican restorers (Gianluigi Colalucci, with Maurizio Rossi and Piergiorgio Bonetti) clearly shows that they are taking infinite care, and that they are not restoring the frescoes as much as removing over 400 years of grease, dirt and the 18th century layer of animal glue that have been causing a gradual peeling of the paint surface.

There has had to be an element of consolidation. The size of some of the cracks in the plaster are, when you are close up to them, alarming. These are being consolidated by a filling of *stucco romano* and in some cases this is painted in a matching tone of watercolour. Where there are whole areas of paint missing these are left blank. Some acrylic resins have been applied and these are absorbed to consolidate the less secure pigments. The condition of the majority of the frescoes, even where there has been some salty efflorescence, is remarkable.

The funding of the restoration, through an agreement with Nippon Television Network Corporation over the film and photographic recording rights, has been an intelligent and remarkable example of continuing sponsorship. To coincide with the halfway mark in the work a fine book has been published internationally. *The Sistine Chapel—Michelangelo Rediscovered* edited by Massimo Giacometti is published in England by Muller, Blond and White, price £60.

No amount of scholarship or argument over the process of restoration can cloud the glorious vision of Michelangelo. His illusionistic architectural structure for the painting, his fictive bronze medallions held on golden ribbons by the *ignudi*, the Prophets and Sibyls almost more dominant than the central panels—all is gradually being superbly revealed.

The cleaning will force some new interpretations on the scholars but no one can argue about Michelangelo's vital genius that reconciled Christian and Classical culture as no artist has since the Renaissance. To see the newly cleaned ceiling is like seeing a new flowering.

The next panel to be cleaned in the Sistine Chapel is "The creation of Man" —the dynamic centre of the composition

Masterly duo

Dominic Gill looks back at piano music in 1986, a year highlighted by Horowitz's memorable appearance at the Festival Hall and Cherkassky's three recitals at the Wigmore Hall to celebrate his 75th birthday.

If it had not been for the momentous visit of the king of them all, 1986 might not have been counted a vintage year for the piano: but Horowitz's appearance at the Festival Hall in June left behind it an indelible mark. On record he may indeed sound larger than life; but in live performance — and no less today at the age of 82 —he sounds larger still.

The only real token of the passing years is that Horowitz these days, instead of lighting the fuse in the first 15 minutes, now feels his way more tentatively into a recital, much as Rubinstein in his 80s used to do. His familiar opening trio of Scarlatti sonatas was more of an inward reflection, a testing of the air, than an overture; and his Schumann *Kreisleriana* was odd, powerfully individual, uneven. But throughout the second half of his programme the playing grew like magic, layer upon layer.

Schubert's B flat Impromptu was an enchantment matched only by one of Horowitz's favourite showpieces, the sixth of the Schubert-Liszt *Soirées de Vienne*—a marvel of delicacy and dynamic shading. His account of Liszt's Petrarch Sonnet no. 104 didn't have the ultimate technical finesse of his greatest recorded performances: but it had something different too, an easy lyrical intimacy, and an extraordinary precision in the weighting of every colour and chord. Two Chopin Mazurkas were almost perfection; and it was at this point, after the inevitable and joyous A flat Polonaise (Horowitz has borrowed more than one Rubinstein trademark in the last decade), that he soared finally into his three encores—of which the last, Rakhmaninov's Polka, was a dream of an era all but vanished, but tantalisingly, for a few brief minutes, revived. No one — as even the most distinguished of Horowitz's many colleagues in the audience would have admitted—plays the piano like this, as well as this, any more.

If anyone comes near it, it is the irrepressible, indomitable Cherkassky, who bounced up at the Wigmore Hall in October with three recitals to celebrate his 75th birthday. At the first of these, his performance of *Kreisleriana* actually put Horowitz's in the shade: a magnificent account which was in every way what great romantic piano playing is all about—mercurial, provocative, adventurous, shot through with vivid colour, irresistible in its dramatic movement. Nothing flagged, no gesture was tentative: every page was a Cherkasskian chorus of conversations and inner voices. For once the *sehr rasch* marking the seventh movement made sense: I have never heard it so fast, exact and exciting.

His final birthday appearance came at a Sunday morning coffee concert, and ended with a jubilant coda in two parts: a glittering, super-embellished concert hyperphrase of Chaikovsky's *Onegin* by his pianist contemporary, Paul Pabst; and the classic Godowsky fantasy (far more indulgent than any mere arrangement) spun around Strauss's *Wine, Women and Song*—before sending us off to lunch in high spirits with a Boogie-Woogie ringing in our ears for an encore. I was forced to modify, only slightly, my epigram for Horowitz: *almost* nobody plays like this, as well as this, any more.

The delights of Horowitz and Cherkassky were to some extent predictable; still more exciting, because so unexpected, was the talent of the Russian pianist Nikolai Demidenko — who had only appeared in this country twice before, briefly in 1978, after a significant success in the Moscow Chaikovsky Competition, and then after a silence of six years, again in 1985, as soloist with the Moscow Radio Symphony Orchestra. Demidenko's Elizabeth Hall recital in November was essentially his London solo debut, and it showed him to be the most fascinating young talent to emerge from the Soviet Union in years — 31 he may be, but the platform manner is that of an arrogant, boyish 20 — gifted with a phenomenal command of the whole range of keyboard colour, steel-cord fingers, tireless energy, and the keenest self-critical ear.

Every measure of his programme was a sequence of brilliant calculated risks, exhilarating in their profusion, and for the most part gloriously successful. He is clearly in love with the piano, and that is what counts most of all: in everything he played he communicated the thrill of that continuing affair, and an irresistible sense of adventure. Demidenko's is the new name of 1986 I most enthusiastically look forward to hearing more of very soon.

Mikhail Pletnev won first prize in the same Chaikovsky Competition in 1978 in which Demidenko came third, and appeared in London within a week of his colleague after the same inexplicable six-year absence. If I were forced to a comparison (largely meaningless at such a rarefied level) I should maybe place him a few points below Demidenko—a less mature and rounded artist, less adventurous, less original.

Another impressive newcomer was the Canadian Angela Hewitt, who won first prize in the first Toronto International Bach Competition, established in 1985 in memory of Glenn Gould. There is an irony in that, for Gould himself was pathologically suspicious of competitions and prize. But I don't doubt all the same that he would have approved of Miss Hewitt—for more than any other new pianist I have heard in recent years she plays Bach with an absolutely authentic and invigorating Gouldian blend of precision, passion and poetry that owes everything to the spirit of Gould's interpretations and nothing at all to mere slavish imitation.

After the first half of her recital at the Wigmore in January, I could easily have listened to a whole evening of her Bach; but she also revealed, in *Le Tombeau de Couperin*, an uncommonly refined and pungent Ravellian sensibility. Her Fauré Nocturne was another triumph, fine-spun and delicate in its phrasing, muscular and uncompromising in its stance; and she ended with a Liszt Dante Sonata coloured with much original and arresting detail, bright, nervous, impulsive. Part of Miss Hewitt's prize from Toronto was a contract with Deutsche Grammophon for a Bach record to be issued early this year, and I look forward to it — and to more recital appearances — with lively interest.

Another Canadian, Louis Lortie, was a prizewinner, though not the first prize-winner as many thought he ought to have been, at the last Leeds Competition in 1984. His recital of Beethoven and Liszt at the Wigmore in November was short but pungent, and whetted the appetite greatly to hear him play a broader range of music — his Liszt sonata in particular was very fine, bright with dappled colours, deftly drawn, precisely controlled. His exact observance of rest and note lengths was also uncommonly refreshing: Liszt, like Beethoven, never halved a quaver for nothing.

Another Liszt sonata notable for its scrupulous attention to detail was given at his South Bank recital in February by the English pianist Peter Donohoe. How carefully he had thought about the music and how attentively he had followed the composer's text was clear from the opening pages: a wealth of tiny dynamic fades and surges, still tinier accents and rests, all clearly marked by Liszt, and perfectly graded and placed by Donohoe.

It was a splendid idea of the English Chamber Orchestra to invite Georg Solti to their Gala concert in June as both soloist and conductor—reminding us that before turning exclusively to conducting after the war, Solti was also one of the most promising young pianists of his generation, studying piano and composition with Bartok and Dohnanyi, and winning first prize in the International Competition in Geneva in 1942. It would be foolish to pretend that 40 years' absence from the professional keyboard does not show: but Sir George's fingers are still remarkably fluent, and his poise and grip are faultless. His account of Mozart's D minor concerto K466 under Murray Perahia's baton was by any standards commanding; and their account together of the two-piano concerto was unexpectedly fine—the very unanimity of gesture was invigorating, and the two distinct expressive manners proved wholly complementary, never at odds.

The year's principal pianistic disappointment was Dmitri Alexeyev, the strength and poetry of whose playing I have often admired since he won first prize at the Leeds Competition in 1975, and who until this season seemed to be an artist whose stature was consistently growing over the years. A pair of quite startlingly aggressive and unsympathetic concerto performances signalled a hiatus in that progress; and a Wigmore recital, in which he beat hell out of Chopin's 24 Preludes and four Ballades, confirmed the distress — Chopin in an armlock, twisted brutally tight. There is evidently something savage and grimly point-proving just now which Alexeyev has to play out of his system.

Michele Campanella/Wigmore Hall

David Murray

Campanella was the same thoughtful, expert, cultivated pianist in both halves of his recital on Saturday, but in Weber and in Liszt he sounded quite different. That was disconcerting: his Weber, loyally restrained to a fault, had the effect of period-reconstruction from a gingerly distance, whereas his Liszt took full possession of the instrument—however, idiosyncratically. *It was idiosyncratic, to the point of being* continually interesting instead of exciting. The full-blooded attack *was a relief, and yet the* final unintended impression was less of splendid piano-music than of a high-powered performer on a private quest.

Weber first, a few days late for the bicentenary. Campanella played the Invitation to the Dance, the *Polacca brillante* and the First Sonata (with the *perpetuum mobile* Finale) in rigorous good taste. Since "taste" is a relative notion, aesthetically irrelevant, it follows at once that we have no idea whether Campanella's taste reflects the kind of playing Weber would have expected. I can only report that his measured, introspective version of the "Invitation" gave far less of a clue to why the piece swept Europe than the Berlioz orchestration, let alone Godowsky's exuberantly over-the-top *rewriting* for the piano (a Bolet party-piece).

The *Polacca* was decorous too, and though Campanella's light-fingered brilliance in the Finale was matched by his refined concern for Weber's all-but-operatic drama in the opening movements, the result was pallid. Weber is plainer, robuster, funnier than that; Campanella's Weber could never have written the orchestral overtures! The real one was an extrovert creator, given to honest public effects, and it does him no service to present his musical arguments like simplified middle-period Beethoven. Against Melvyn Tan's recent performance of the *Konzertstück*, an inspired and triumphant circus-turn, Campanella's respectful daguerrotypes seemed dusty.

One could admire the piano-playing with less reserve in Liszt's *Années de pèlerinage*, the "Italian" Book 2—not because Campanella relaxed into stereotype Italian sentiment, but because he allowed himself to exploit the full range of the piano. Both "Sposalizio" and "Il penseroso" revealed lovely things in *mezzo-piano* half-lights, fluid beyond conventional imaginings; there was also a slangy wryness in the Salvator Rosa *canzonetta*, and a fine black *fortissimo*—strident but clear and controlled — for the "Petrarch" climax and for the opening challenge of the Dante "sonata."

Still, if the Italian book isn't strictly a "cycle" it is a cunningly arranged diary of expanding feeling, and Campanella kept it too cool and tight. Of the three central, confessional Sonnets only the last found something like its intimate breadth (the others were respectively theatrical and impatient), and the *quasi Sonata*—very boldly laid out—missed its *ppp dolcissimo con amore* heart (Campanella took it fast and pretty, exposing nothing). This book of the *Années* can make a satisfying whole, but not as a mere series of highly intelligent footnotes to the text. Without the essential High Romantic passion, any number of fresh and striking ideas adds up to no more than that.

Ralph Kirshbaum/Wigmore Hall

Dominic Gill

Ralph Kirshbaum's recital on *Friday evening was the second* of two devoted to Bach's six solo cello suites. He plays Bach rather as he also plays Dvorak or Shostakovich or Schumann: with genial and irreproachable tact, but without either the passion or the close focus that could make the performances memorable. The interpretations are not bland at all in the flabby sense of the word: the sound is warm and clear, and beautifully tuned; articulation and colouring are precise; the technical grip is commanding. But the cumulative effect is bland nonetheless—for the very unremitting smoothness of the manner, and its curious lack of mystery.

The musical tone of voice was almost unchanged from the first suite to the last. And indeed after the first four numbers of the programme (No. 2 in D minor) one had, as it turned out, a fairly good impression of how the remaining 17 numbers of the recital would sound. This element of surprise has nothing to do with consistency: in matters of broad expressive plan Casals was a supremely consistent artist—yet from measure to measure one never quite knew where the accent would fall. Kirshbaum's expressive accents fell regularly and sweetly, on every page, exactly where they had fallen the page before.

The good things were by no means substantial: the tone never lost its richness, nor the colours their depth. There was plenty of rhythmic energy (if somewhat less of subtle rhythmic variety)—the two Bourrées of the fourth suite were pushed ahead with splendid drive. Many qualities to admire: but none quite substantial enough, or adventurous enough, to add up to great and original performance of Bach.

Arts news in brief . . .

The National Art Collections Fund is setting up an annual award scheme which will recognise outstanding contributions to conserving and enriching Britain's art heritage. It will be sponsored by Slough Estates over three years.

The scheme will aim at honouring a "benefactor of the year" for his/her generosity to art, and at rewarding work, with prizes up to £5,000, in fields such as conservation, restoration, research and discovery. Work for exhibitions, museums and radio, TV and film production on the visual arts will also qualify.

The NACF was formed in 1903, has helped more than 300 galleries and museums, and last year distributed £1m in bequests and grants.

*

The Private Degas, an Arts Council exhibition, will open at the Whitworth Art Gallery Manchester on January 20, closing February 28. More than 100 drawings, paintings, sculptures, posters and prints will be on show from museums and private collections throughout Europe and the US.

The exhibition will move to the Fitzwilliam Museum, Cambridge from March 17 to May 3.

*

Scottish Opera begins its 1987 season on January 27 in Glasgow with its first ever production of Wagner's *The Flying Dutchman*, sung in German, and conducted by Alexander Gibson. It will be directed by John Cox. Norman Bailey and Kathryn Harries will sing the Dutchman and Senta.

The production later moves to Aberdeen, Edinburgh and Newcastle.

British Airways Commonwealth Poetry Award

The top prize of £5,000 for the British Airways Commonwealth Poetry Prize has been shared by Niyi Osundare from Nigerian and Vikram Seth from India for their respective boks, *The Eye of the Earth* and *The Golden Gate*.

The three regional winners, who receive £1,000 each, were Iain Crichton Smith (UK/Europe Area) for *A Life*, Andrew Taylor (Australasia area) for *Travelling* and Lorna Goodison (Canada/Caribbean area) for *I Am Becoming My Mother*.

A special prize of £2,000 was awarded to Vicki Raymond (Australian) for her *Holiday Girls* as the best first-time published collection.

Arts Guide

Music/Monday. *Opera and Ballet*/Tuesday. **Theatre**/Wednesday. **Exhibitions**/Thursday. A selective guide to all the Arts appears each Friday.

Music

January 2–8

LONDON

Purcell Room (6pm) Bingham String Quartet. Patterson, Stachowski, Lutoslawski *(Mon)*.

Purcell Room (7.30pm): Tom Blach and Susan Tomes, pianos and Matthias Feile, cello. Janacek, Debussy and others. (Mon).

Wigmore Hall: Trio *Finnico*. Beethoven) Shostakovich and Mendelssohn. (Mon).

Purcell Room (6pm): Elysian Piano Trio. David Matthews and Ravel (Tue).

Purcell Room (7.30pm): Caroline Dearnley, cello, James Lisney, piano and James Woodrow, guitar. Bartok, Tippett and Kodaly and others (Tue).

Purcell Room (7.30pm): Anne Carewe, cello, Jorge Nestro Serreyra and Malcolm Martineau, pianos and Elizabeth Layton, violin. Knussen, *Lutoslawski*, Britten and others (Wed).

Wigmore Hall: Robert Hall, bass baritone, accompanied by Andras Schiff. Schubert (Wed).

Purcell Room (6pm): Leda Piano Trio. Goehr, Adrian Williams and Wood. (Thur).

Purcell Room (7.30pm): Theodore Ulrich, cello, Julius Drake and Andrew Bottrill, *piano and* Daniel Rye, clarinet. Poulenc, Berio, Patterson and others (Thur).

Wigmore Hall: London Handel Orchestra conducted by Denys Darlow. Geminiani concerti grossi (Thur).

NEW YORK

Carnegie Hall: Julliard String Quartet. Beethoven, Spohr, Ravel, Mozart (Mon); Ramsey Lewis jazz pianist recital (Tue); Arthur Green piano recital. Scriabin, Ives, Chopin (Wed); Orchestra of St Lukes. Julius Rudel conducting, Jorge Bolet piano. Schumann, Liszt, Dvorak (Thur). *(247 7800)*.

New York Philharmonic (Avery Fisher Hall): Erich Leinsdorf conducting. Strauss, Debussy, Schumann (Thur). Lincoln Center (874 2424).

Waverly Consort (Alice Tully Hall): George Mgrdichian. Spanish music of the year 1492, covering court and religious music as well as songs of the wandering Sephardim (Thur). *Lincoln Center (362 1911)*

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Andre Watts piano. Berlioz, Sibelius, Brahms (Thur). Kennedy Center (254 3776).

CHICAGO

Ensemble A Corde (Orchestra Hall). Bach, Hindemith, Mozart, Reger (Wed, 5.45). (435 8111)

Chicago Symphony (Orchestral Hall): Yoel Levi conducting. Haydn, Roy Harris, Prokofiev (Thur). (435 8111).

TURKISH PETROLEUM CORPORATION
(TPAO)
INVITATION TO TENDER FOR ONE SEISMIC VIBRATOR CREW

Turkish Petroleum Corporation (TPAO), the national oil company of Turkey, invites tenders for a *seismic vibrator* crew with 120 channel recording system, to acquire high quality seismic data in Akçakale, Urfa, Gaziantep and Adana areas. The exploration programme covers a period of six to seven months, starting at about early May 1987. This programme can be extended to cover another six months period during summer 1988, upon TPAO's request.
The deadline for receiving offers will be 11 a.m. January 28, 1987. The bids will be opened the same day at 2 p.m.
Any bids received after the deadline stated above will be considered null and void. Specifications and parameters of the crew will be available January 5, 1987.

Inquiries and offers should be sent to:

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MUDAFAA CAD. 22, BAKANLIKLAR,
ANKARA TURKEY
Attn: M. Murathanoglu Tel: (41) 18 76 02
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Monday January 5 1987

Trade shadow lengthens

JUST BEFORE Christmas the EEC farm ministers were warned by Dr Clayton Yeutter, the US trade representative, that America would retaliate if its embattled farm producers were injured by the consequences of EEC enlargement. They asked for more time to compose a reply. Now the threat has been spelled out—prohibitive tariffs against a range of EEC alcoholic drinks and food products; and the time limit has been set, for January 31.

The initial EEC reply, a threat of counter-retaliation, can hardly be called constructive; but if any European ministers imagined that this crisis could be left to an exchange of bluff and counter-bluff, the latest US trade figures should have disabused them. An American retreat into protectionism is now a serious and urgent threat to all her trading partners.

The fact that there are two intractable problems entangled here will certainly make it no easier to find solutions; but perhaps nothing short of a US trade crisis could have persuaded the EEC to think seriously about the external effects of the Common Agricultural Policy.

External victims

The internal bargaining through which a little rationalisation is fitfully achieved in the CAP is so complex that it has absorbed the entire attention of the ministers involved. The fact that the US threat caught them apparently unawares, just as they were celebrating a supposed triumph in agreeing to cut EEC milk production, shows their state of mind only too clearly. The plight of US farm producers, and the acute political pressures on the President are hardly secret or arcane matters, after all; but the ministers responded in a way which suggested that it had simply not occurred to them that their own policies must be involved.

The nightmare that must now haunt them is that if they do make some agricultural concession to the US to compensate American producers for the loss of the Spanish feed grain market that will be a beginning, not an end. The many other external victims of the CAP, from Caribbean sugar producers to the ranchers of Latin America and Australasia will revive their own long-held grievances.

It is even conceivable that those who pay the price for the CAP, the consumers of Europe, would start their own liberation movement. The fact is that in any serious consideration of economic welfare and efficiency, the CAP is indefensible. If ministers feel powerless to change it radically, they should at least refrain from trying to defend the indefensible through counter-retaliation. This could do nothing but harm.

However, it is not, of course, the question of Spanish feed grains which has provoked the Americans to threaten action against a policy to which they have made strenuous objections over many years; it is the enormous and still growing deficit in US merchandise trade, which peaked in November, when export earning covered barely half the import bill.

Political situation

The November trade figures are to some extent distorted, since there was some acceleration of imports ahead of the imposition of a modest US "customs user" charge, and of the Opec meeting; and the figures for January may well be worse distorted by a rush of spirits and wine shipments to forestall the current US threat. What seems clear, though, is that no plausible adjustment will produce figures which are less than very bad. Economists may argue that he US devaluation cannot be expected to work without support from macroeconomic policy; Congressmen may conclude that it will not work without protection.

The fact that US legislators have been sharply disappointed by this lack of progress is an important political fact, although their hopes of a painless turnaround always looked unrealistic. This political situation simply strengthens the case for urgent efforts by America's trade partners to offer all the help they can, through trade and economic policies, to assist what is bound to be a difficult adjustment. The selfish interests of Europe and Japan are bound up here, as Dr Karl-Otto Pohl of the Bundesbank pointed out last week. The time for a clear display of enlightened self-interest is growing dangerously short.

China's student revolt

FOR ALMOST a month now in one city or another, Chinese students have been out on the streets demanding more democracy and freedom. Demonstrations have spread from Hefei, capital of the eastern province of Anhui, to the crucial centres of Shanghai, Tianjin and Peking as well as other important cities such as Nanjing. Though mainly good-humoured and unaggressive, the students have recently ignored regulations which stipulate the need for permission and planned routes and, in Peking, have made no bones about heading for recently-pronounced off-limits areas such as Tienanmen Square.

The determination needed to oppose the authorities in such a conformist society argues a strong commitment to the cause. While Peking last week accused Taiwan of ordering its agents to foment campus trouble, there is no real sign of outside leadership. In fact, correspondents in Peking say there is little sign of organised leadership at all, just a general desire to express political and social frustrations. With Chinese academics now regularly travelling abroad, foreigners teaching in Chinese colleges and foreign television and radio programmes easily accessible, students have become aware that their freedom of choice, status and prospects under the present system are far more restricted than in most other countries.

Participation in the demonstrations has been almost entirely restricted to the student community and Peking is being careful to keep it that way. Outsiders playing an active part have been swiftly picked up by the authorities, no doubt mindful of the cultural revolution heyday of 1967 when China's workers joined with the undisciplined Red Guards and brought the country to a virtual halt. Street demonstrations which brought urban grievances, such as inflation, to light would be far more threatening than the present marches. But so far the students have formulated no programme beyond the demand for a speedier implementation of an undefined form of democracy.

Due caution

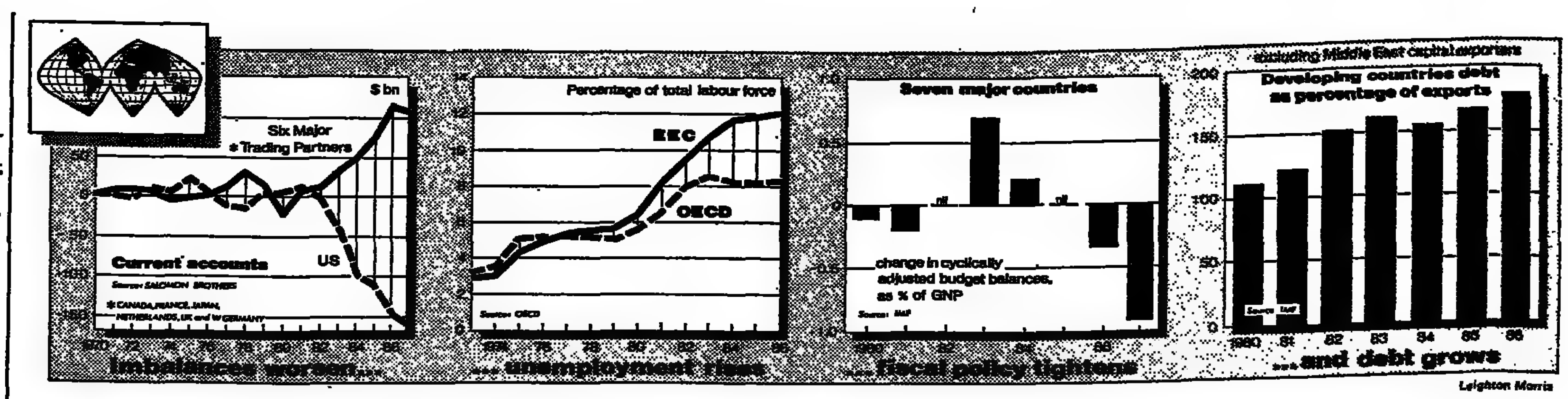
What precipitated the initial marches in Hefei is still not clear. Yet constant discussion in academic circles of the political reform that was first proposed by the leadership last June must have encouraged the students to seek more democracy. The trigger may have been broadcasts on such stations as the BBC and Voice of America of the success of France's students last November in forcing the Paris Government to abandon its plan for university reform.

With the possible exception of last Thursday's confrontation between students and police, the authorities have managed so far to handle the marchers with some degree of sophistication. Official spokesmen have steadily maintained that the students were misguided rather than evil and were simply pressing for reforms which would in any case be implemented in time and with due caution. If the leadership continues to handle further demonstrations with the same coolness, the threat of instability which could arise from an escalated round of street marches may be averted.

Deceptive appearance

However, the marches of the last month will have put Deng Xiaoping, China's reformist leader, and his colleagues under great pressure from the conservative Marxists in Peking to stamp firmly on such demonstrations. In the last week references to national nihilism, anarchist trends and bourgeois liberalism have surfaced in the speeches of senior leaders identified with the conservative line, and the official People's Daily commented on the "vague and erroneous views" of democracy which had recently become current. If campus unrest continues, provoking a conservative backlash in response, Deng is likely to find it much harder to carry through his other reforming policies.

Given the strength of the reformist lobby in China, and the large number of officials apparently now dedicated to the reformist cause, the student demonstrations as seen so far are unlikely to have a permanently obstructive effect. Less predictable would be their result, if, at some later stage, they took place when other policies, such as price reform planned for this year, were running into difficulties. The very fact that the student actions took the world completely by surprise should remind outsiders that China's relatively placid appearance is sometimes deceptive.



Imbalances worsen... ...unemployment rises ...fiscal policy tightens ...and debt grows

Leighton Morris

Not a year for austerity

ECONOMIC FORECASTS 1987

Michael Prowse foresees many dangers in a year of only modest economic growth

THIS YEAR is likely to be remembered in one of two ways. It could turn out to be "economic co-operation year"—the year when governments finally began to take their international responsibilities seriously and accepted the folly of framing policies primarily in narrow nationalistic terms.

The more gloomy alternative is that 1987 will be circled as the year when protectionism, for the second time this century, took firm root and when a weak recovery petered out in a string of trade and currency disputes.

The auguries are not encouraging. The US trade deficit for November, a record $19.2bn, has underlined the fragility of the dollar, which has skidded to a series of six-year lows against the D-mark. A few years ago a deficit of this magnitude would have been regarded as alarming even as an *annual* figure. In its wake, nobody is likely to quarrel with the OECD's prediction of no significant improvement in the US trade deficit by the first half of 1988.

Meanwhile, the beggar-thy-neighbour spirit which is overtaking trade negotiations was symbolised by President Reagan's announcement last week of plans to impose penal 200 per cent tariffs on a range of EEC foodstuffs, in retaliation against curbs on US exports following Spain's accession to the nakedly protectionist European Community.

The blunt truth is that all three main trading blocs in the industrialised world—the US, Japan and the EEC—are at loggerheads with each other. In addition, the developed and developing world remain in a state of friction over trade in agricultural produce, services and low-tech manufactured goods such as textiles. The falling of the US Congress into Democratic hands and the political paralysis of the Reagan administration seem likely to strengthen the protectionist tide in 1987.

Another blow has been the sight of Opec re-establishing internal discipline. The resurrection of the cartel has already sent oil prices rising towards $18 a barrel. Whether or not the new price structure sticks, it looks as though the 1986 promise of really low prices—in the region of $10—was no more than a mid-summer mirage. Ironically, oil prices are rising before many western consumers have had the chance to benefit significantly from lower energy costs.

The warning signals from oil prices, currency instability and trade wars seem only dimly reflected in the economic projections of the main forecasting groups. Most seem remarkably sanguine about 1987 and beyond. The "pause" of 1986 is apparently behind us and faster, non-inflationary growth beckons for 1987 and 1988.

In mid-December, the Bank of England's crystal ball cleared sufficiently for officials to catch a glimpse of 3 per cent annual growth in the seven major economies over the next two years. A little later the OECD confidently forecast 2½-3 per cent GNP growth in the industrialised world over the next 18 months. Both institutions were surprised that 1986 was not the bumper year predicted in December 1985; but neither has allowed past forecasting errors to inhibit future optimism.

Much of the contentment reflects satisfaction at the depressed level of inflation. Consumer prices are widely expected to rise by 3 per cent or less in both 1987 and 1988 — the best performance for two decades. For the first time in many years, it is possible that real growth in OECD countries could exceed inflation — this would have been unthinkable in the late 1970s.

Private - sector forecasters seem broadly to share the optimism of the official soothsayers, from whom they typically take their lead. Oxford Economic Forecasting predicts growth and inflation of 2.7 per cent in the main economies in 1987, and summarises the overall outlook as "more of the same." Wharton Econometrics has a similar growth forecast but is slightly more bearish on inflation, which it expects to rise to 3.4 per cent in 1987 and to top 4 per cent in 1988.

Few forecasters seem too concerned by the ratcheting up of oil prices—perhaps a tacit admission that they rather overplayed the benefits of last year's sharp fall. The OECD says its forecasts are not particularly sensitive to oil price changes within two or three dollars of its assumption of $15.

Given this relatively favourable outlook for growth and inflation, why should governments in 1987 worry much about economic co-operation and co-ordination? Surely the wisest course would be to sit back, enjoy the fifth and sixth years of non-inflationary growth and leave the free-market system to iron out any wrinkles?

The first objection to such Panglossian complacency is that these growth projections are woefully inadequate. In the 1950s and 1960s, growth of only 2½-3 per cent would have been regarded as a setback—a "growth recession." If it had been coupled with an OECD unemployment tally of 31m, it would have been regarded as an economic catastrophe.

As respected economists, such as Professor Franco Modigliani, the MIT Nobel prize winner, have stressed, growth aspirations (especially in Europe) are much too low. The unemployment backlog will not be wiped away without several years of above-trend growth, say 5 per cent per annum.

The second objection is that it is not even certain that lacklustre 2½-3 per cent growth will be forthcoming. A good reason for fearing a slowdown in 1987 and beyond is the prospective tightening of world fiscal policy, as US measures to curb its deficit are not matched by relaxation elsewhere.

OECD analysts are assuming that restraints on federal spending, inspired by the Gramm-Rudman-Hollings law, will result in a deficit in fiscal 1987 of only $175bn against $220bn in the previous year. Certainly, the Democrat-controlled Congress has an incentive to push through austerity measures before the end of the Reagan presidency. Even if this projection proves too optimistic, there seems no doubt that, after adjusting for the economic cycle, US fiscal policy will be contractionary this year.

Given the size of the US (40 per cent of the entire OECD economy) a quite dramatic loosening elsewhere would be necessary to prevent worldwide fiscal policy going into reverse. This does not look on the cards. Japan talks a lot about fiscal relaxation, but has done little of substance: the OECD's most comprehensive measure of its fiscal stance suggests a *tightening* in 1987.

West German policy might change after the January election. But this can hardly be relied upon in view of the "I'm all right Jack" attitude prevailing in Bonn. OECD calculations suggest that West Germany's budgetary stance may be slightly expansionary this year, but the stimulus will be even weaker than in 1986.

The chart puts present policy in perspective. It shows how, on IMF definitions, fiscal policy in the seven large economies has changed over the decade. Deflation in the early 1980s gave way in 1983 to a strong US-led reflation. This has dissipated and the prospective overall tightening of fiscal policy seems of the same order of magnitude as the earlier loosening, which was followed by two years of quite rapid world growth.

Loss of purchasing power in the Third World is another reason for worrying about slow growth. Demand in developing countries has been constrained in two ways: by a sustained collapse of commodity prices, unprecedented in the post-war period, and by the privations imposed by the struggle to service debts totalling more than $700bn. The loss of purchasing power as a result of terms of trade movements alone in 1986 was equivalent to about 3 per cent of the less developed countries' combined GNP.

Import rationing in the Third World was one of the main reasons why growth in the industrialised countries was overestimated last year. It is also thought to account for about a fifth of the deterioration in the US trade account since 1981.

Since the secular decline of non-oil commodity prices shows few signs of easing and the effective LDC debt burden is still rising (see chart), North-South economic relations need urgent attention. Policy-makers in the First World, most notably Mr Michel Camdessus, new managing director of the IMF, need to find ways of channelling capital to developing countries.

The Japanese announcement of more aid is a step in the right direction, but official flows are tiny in relation to the outstanding debt. The real challenge is to find some way of persuading the commercial banks to resume lending on a large scale. If this does not happen, the pressure for debt write-offs may intensify in 1987.

The current account imbalances in the First World represent an equally daunting challenge. The fact that the US, the supplier of the world's primary reserve currency, has also contrived to become the biggest debtor nation is about the best argument that could be imagined for better economic co-operation and co-ordination.

The question is: how long will the rest of the world be willing to absorb US assets at the rate of at least $100bn a year? An ominous change in the nature of capital flows is already occurring: as private investors begin to get cold feet, America seems to be getting more dependent on official purchases of US Treasury bills. Salomon Brothers expects purchases by foreign governments in 1986 and 1987 to total $90-100bn, compared with $30bn in the previous five years and only $55bn during the 1977-78 dollar crisis. No wonder Mr James Baker is making lightning tours of foreign finance ministries.

The US experience up to 1986, of vigorous private-sector capital inflows, was atypical. As Mr Shafiq Islam of the Institute for International Economics in Washington points out, current account deficits are usually eventually associated with a loss of financial confidence and private capital *outflows*.

Mr Baker may yet have to face the Latin American nightmare of trade deficits inflamed by capital flight. An attempt by Japanese and European investors to withdraw private capital from the US would threaten a collapse of both the New York bond market and the dollar.

Such disaster scenarios cannot be entirely discounted so long as the trade imbalance persists. Coupled with the spectre of US protectionism on the scale of the 1930s, they underline the urgency with which a solution must be sought.

It has to come in two parts: a further orderly depreciation of the dollar to make the US more competitive abroad and to curb its appetite for imports; and the opening up of a sizeable gap between the rate of growth of demand inside and outside the US.

The worry at the start of 1987 is that neither part of the cure looks certain. There is still resistance in Europe and Japan to further dollar depreciation: the announcement of the $19bn US trade deficit for November prompted Mr Karl Otto Poehl, the Bundesbank president to warn of the dangers of a *fall* in the dollar. The assumption must be that he was trying to keep currency markets calm at least until after this month's election, rather than making a serious economic comment.

At the same time, OECD projections suggest that real demand is set to grow only half a percentage point faster outside than inside the US economy, a reflection of tight fiscal policies in much of the rest of the world. If America's so-called allies can do no better than this when inflation is at a 20-year low and unemployment at a 50-year high, perhaps they deserve a protectionist Uncle Sam.

Men and Matters

Challenge of Tiger Bay

Nicholas Edwards, Welsh Secretary, has given Geoffrey Inkin, aged 52, a brief to accomplish for Cardiff what Sir Nigel Broackes has done for London, and Sir Leslie Young for Liverpool.

Inkin has been appointed chairman of the newly-formed Cardiff Bay Development Corporation—a body set up to revamp, Cardiff's docklands. Edwards is looking for a coupling of new and aggressive commercial activity with preservation of outstanding features of the old docklands. The designated area includes Tiger Bay, once notorious among sailormen the world over, but now a forlorn place living on its memories.

Inkin, a soldier turned farmer, says his big problem is to convince people, not least those in Wales, that Cardiff Bay can be turned into an international city. "We are intensely patriotic in Wales," he says, "but we do tend to sell ourselves short by emphasising difficulties rather than solutions."

A former commanding officer of the First Battalion, the Royal Welsh Fusiliers, he bought a farm outside Monmouth after leaving the army in 1973. In 1979 he faced the Welsh equivalent of climbing Everest when, as a Conservative parliamentary candidate, he fought Michael Foot in the rock-solid Labour Eddw Vale constituency in the general election.

Recalling that battle Inkin says, "I managed to push the Conservative vote into second place. Normally we bumped along the bottom."

Inkin became chairman of Cwmbran new town three years ago, and is also a member of the board of the Welsh Development Agency. He shares with Edwards a love of opera but insists. "That's just coincidence."

"That reminds me — when does the food and drink trade war start with the US?"

Club man

London's clubland has fond memories of Koji Yamazaki who has been chosen by the Japanese government as its representative on the International Monetary Fund Board.

Yamazaki, a law graduate of Tokyo University, and, until two years ago, the ministry of finance man at the Japanese embassy in London, loved the stately Reform Club, where he hosted lunches to bring together City, Whitehall, and Japanese personalities.

Though the Japanese do not use first names as terms of intimacy, Yamazaki liked to be known as Koji, a reminder of his days as a gradute student of economics at Edinburgh in the 1960s.

For the past two years he has been running the customs and tariff bureau in Tokyo, no doubt preparing a suitably liberal brief for his delegation to the current round of trade talks.

The new managing director of the IMF, Michael Camdessus, with Yamazaki, and Tim Lankester of Britain, on his board, will need no reminding of the vitrues of an open trading and financial system.

Taxing times

Hungary may become the first East European country whose state companies dare follow current western fashion by privatising and selling shares to the public.

A leading Hungarian newspaper, Magyar Nemzet, recently noted that the joint stock company concept was the "most attractive" form of enterprise to raise capital. It added that it is also the most prevalent form in highly developed countries.

Warming to its subject the newspaper advocated selling shares to Hungarians, with the limitation that the state, banks, and other institutions, hold three-quarters of equity capital issued.

Bonds issued by Hungarian firms have been sold to companies and individuals since 1984. At 11 per cent interest they are a popular way of keeping ahead of inflation, which is officially expected to be 7 per cent this year.

Those Hungarians who have the most spare cash for such investments are usually private shopkeepers and tradesmen, who reap enormous profits in what is still a sellers' market.

Until now they have not had to pay taxes on income from bonds and, in fact, many of them seldom pay taxes at all. The Hungarian central statistical office estimates that no tax is paid on about 20 per cent of personal incomes.

New model BMWs in private ownership in Budapest now far outnumber the Mercedes cars owned by the Government.

But all may change. The authorities are preparing to introduce two capitalist money-raising wheezes which would soak rich comrades. A tax reform is being prepared which is expected to levy personal income tax on the second and third jobs held by many Hungarians. And the authorities are also contemplating the introduction of VAT.

All they will then need for a true western society will be wheel clamps.

Private paper

Which British national newspaper has been publishing for 146 years, has a blue-chip weekly circulation of some 50,000, appears to be fire-proof against business predators, and returns healthy dividends to its owners?

The answer is the Jewish Chronicle, the organ of Britain's Jewish community.

The Jewish Chronicle, is published from modest offices between Fleet Street and Holborn — eye-catching only for their strong defences against possible terrorist attack.

The paper has now reported post-tax profits of £72,000 on a turnover of £3.6m — £300,000 above the 1985 turnover figure.

David Kessler, the company's chairman and managing director since the Second World War, has buttressed the Jewish Chronicle against unwelcome bids, however, by creating the Kessler Foundation—modelled on the trust that owns the Guardian.

Kessler and his family owned 90 per cent of the company's unquoted equity before the foundation was formed. Their holding is now put by observers at nearer 90 per cent.

A prospect to daunt even a Maxwell or a Murdoch.

Plastic pollsters

The West Germans are giving great political significance to the fact that, in the run-up to the forthcoming general election, plastic garden gnome figures of Chancellor Helmut Kohl are outselling those of his challenger Johannes Rau by seven to one.

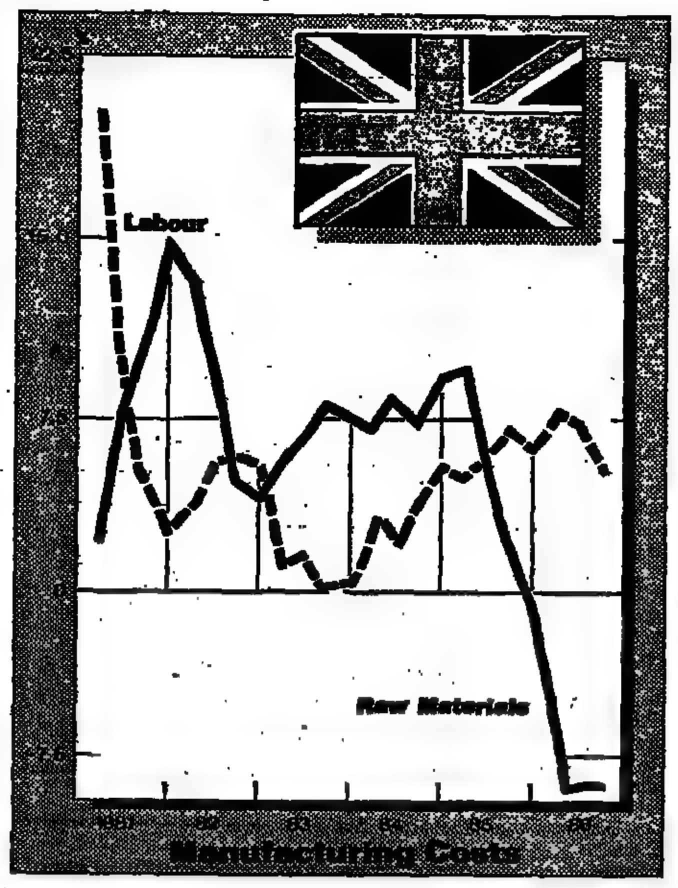
Observer

Inflation ghost in the machine

ECONOMIC FORECASTS

1987

Alan Budd says that strains developing in the UK economy give serious cause for concern



Manufacturing Costs

THE GENERAL election, whenever it is held, will dominate economic events during 1987. As the teenage scribblers say, it will be an electoral market. Conservative success in the opinion polls will (rightly or wrongly) help bring interest rates down and strengthen the exchange rate. Those moves in turn will improve prospects of a Conservative victory.

Success will breed success and failure will breed failure. The process seems alarmingly unstable and adds yet another complication to what is at any rate likely to be a difficult year for forecasters. Abroad there is the question of oil prices, the threat of a trade war (increased by President Reagan's current political weakness) and more general questions about whether the long-awaited recovery will materialise. At home there are questions about government policy, fears of resurgent inflation, alarm about balance of payments prospects and the persistent problem of unemployment.

In the event, Britain will probably get by with a respectable growth of output, inflation below 5 per cent and possibly some further fall in unemployment. But that is a short-term result, with the UK economy carried along on a world recovery and with inflation still helped by last year's low rate. A more important question is whether policy will set Britain on the right path for a sustained recovery with low inflation, or whether the Government will succumb to the temptation to push the economy along more rapidly now at the cost of high inflation (and the painful process of correction) later.

As I predicted last January, 1986 was the year of the consumer. The rapid rise of real incomes, helped by a tax cut and a fall in the savings ratio, pushed the growth of consumer spending close to 5 per cent, the fastest rise since 1978. But the overall growth of the economy was rather slower since all the other components of demand, most notably fixed investment and exports, grew only sluggishly. As usual, much of consumer demand was met from imports.

The pattern of demand in 1987 should be healthier, though consumer spending will again provide the main source of growth. Real incomes are likely to rise by about 3 per cent (compared with 4 per cent last year). The savings ratio has been falling with inflation and there is probably some further adjustments to come. Despite alarm about the rapid expansion of personal credit, the personal sector is still saving over 10 per cent of its income. If the savings ratio falls by about 1 per cent this year, as I expect, consumer spending should rise by about 4 per cent.

Government current spending is forecast by the Treasury to rise by about 1.5 per cent in volume terms. That is probably realistic; the main fears about public spending are related not so much to its volume as to its price. It seems very likely that public sector pay will rise more rapidly than private sector pay this year.

Fixed investment probably rose by less than 2 per cent in 1986. That was rather disappointing although it partly reflected an adjustment to the very rapid growth of capital expenditure in 1984 and 1985, while the allowances were being phased out. In addition the fall in oil prices hit North Sea investment severely. Prospects for investment in 1987 look rather better and the Department of Trade and Industry's investment intentions inquiry suggests a rise of 6 per cent for the industries it covers after a fall of about 1 per cent last year. A further year of reasonable growth in house-building after last year's rapid rise in house prices can also be expected. Overall, fixed investment is likely to rise by more than 4 per cent this year.

The trade balance was particularly unfavourable last year. Export volumes rose by about 1.5 per cent while imports rose by about 4.5 per cent. On top of that, the current account of the balance of payments was hit by the fall in oil prices and the surplus of £3.5bn in 1985 disappeared completely. While the current account will move firmly into deficit this year, the development of trade volumes should be rather better.

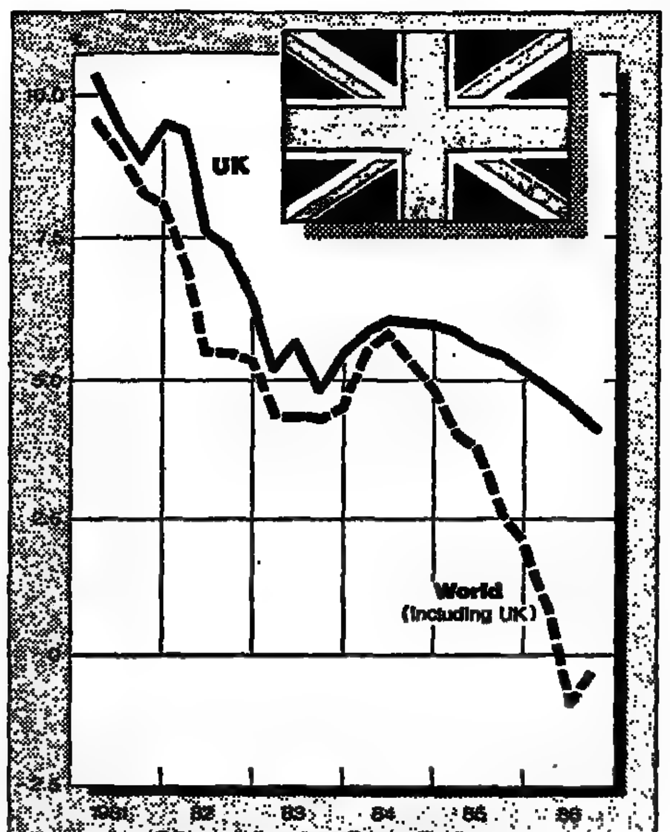
I still believe that 1987 will produce strong growth in world output and trade. I had always assumed that the beneficial effects of the fall in oil prices would take some time to become apparent but did not appreciate that the short-term effects would be so unfavourable. However, it looks as if output is beginning to respond to the earlier growth of consumer spending in the main industrial economies. In Europe, leading indicators are at their highest level for seven years. In the US the evidence is rather mixed but the indicators must soon start to show the beneficial effects of the fall in the exchange rate. The Japanese consumer has yet to benefit from the rapid rise in the yen, but domestic demand should recover as prices fall.

The opportunities for UK exports will be good. The growth of world trade coincides with a favourable competitive position after sterling's fall against the European currencies and the yen. I expect total exports to rise by about 4 per cent, while exports of manufactured goods should rise by 6 per cent. Given the forecast of consumer spending, fairly rapid growth of imports can be expected, but the gap between the real growth of exports and imports should be rather smaller than last year.

Thus the pattern of demand in 1987 will see a balance of expansion in consumption, investment and exports. I would not expect the position to be very different if oil prices rise to $18 a barrel and stay there. I assume that the Government will not adjust its fiscal policy if the oil price rises. If oil stays at $15 a barrel I expect the PSBR for 1987-88 to be about £6bn. If the price rises to $18 a barrel I would expect the government to respond by holding the exchange rate at about its present level and letting interest rates adjust; I also assume it will accept the favourable effects on the PSBR (which would bring it down to about £5bn).

Inflation has already started to accelerate and it is likely to rise above 4 per cent in the course of the year. However world inflation will stay low and if the Government is able to hold the exchange rate at about its current level, inflation by the end of the year should be no higher than 4 per cent. I would not expect this outcome to be much affected by variations in the oil price between $15 and $18 a barrel. The effects of a higher oil price on retail price inflation are likely to be offset by lower interest rates and a lower mortgage rate.

While short-term prospects can be expected to be good, strains now developing in the economy give cause for serious concern. Despite the high level of unemployment, nominal demand may now be growing too rapidly. Some evidence that the economy is already overheating is provided by last year's inflation rate. The fact that retail price inflation, helped by the temporary fall in the mortgage rate, fell below 3 per cent should not be allowed to disguise the UK's dismal failure. A golden opportunity to defeat inflation completely has been wasted.



Manufacturing Prices

A more realistic picture of what happened to prices is shown in the accompanying charts, one of which shows the prices of manufactured goods in the UK compared with those of Britain's competitors. From 1981 to 1983, inflation in Britain fell rapidly and moved fairly close to that of the UK's competitors. But from mid-1984 the other OECD economies took advantage of falling commodity prices to bring their inflation rate sharply down. When oil prices fell, inflation disappeared completely, yet UK prices continued to rise at a rate of 4 per cent or more.

The chart which shows that UK labour costs have actually been accelerating since the beginning of 1984 (mainly because the growth of productivity slowed down) is even more discouraging. The growth of total costs was only kept down because raw materials prices fell. And competitiveness was only maintained because the exchange rate fell. The Chancellor, Mr Nigel Lawson has said that a fall in the exchange rate was justified as a response to the fall in oil prices. That is correct in the sense that a fall in oil prices is likely to require a fall in the real exchange rate. But if a fall in the nominal exchange rate is rapidly followed by an acceleration of wages and prices, then no progress will have been made towards the required real adjustment.

Although the most recent signs are more encouraging with some welcome evidence that wage increases are at last slowing down, that relief may be only temporary. It is not inflation in 1987 that should give cause for worry, but the prospects for inflation in later years. Britain knows from bitter experience that it is almost impossible to check inflation once momentum has built up.

In recent years the Government has used money GDP, as one of its guides to counter-inflationary policy. Within that framework it has to decide what path it should set for money GDP, and it then has the more difficult task of deciding how to set its monetary and fiscal policy to achieve its chosen growth of nominal GDP. The Autumn Statement shows that the Treasury already expects the growth of money GDP to accelerate this year. Since most forecasters agree that demand will be buoyant this year, there is no need for the Government to add to it.

Accelerating inflation, fears of unsustainable balance of payments deficits and exchange rate crises are all symptoms of the same problem—an imbalance between supply and demand. The Government should not make that imbalance worse, even if it means postponing its cherished ambition to cut income tax. Nor should it be tempted to expand nominal demand in the hope that it can control inflation by holding the exchange rate. The consequence could be very high interest rates which would disproportionately hurt industry.

It may seem extraordinary to talk of the risks of overheating when unemployment is over 3m. The kind of growth rates I am forecasting should produce some increases in employment (though probably not in manufacturing) and unemployment should fall slightly. I support those who believe the Government's efforts should be directed at cutting long-term unemployment. Such efforts are consistent with overall policies designed to bring inflation down. Indeed, by bringing the long-term unemployed back into the labour market they increase their chances of success.

The author is Professor of Economics and director of the Centre for Economic Forecasting at the London Business School.

THE OUTLOOK

	1986 %	1987 %
Gross Domestic Product (average estimate)	2.5	3
GDP (excluding oil)	3	3.5
Consumers' expenditure	5	4
Fixed investment	1	4
Exports	1	4
Imports	4	5
Retail price inflation (fourth quarter)	3.5	3.5
Balance of payments	—.5	—2.5
Unemployment (excluding school leavers)	3.2m	3.1m

Dicing with recession

ECONOMIC FORECASTS

1987

Martin Feldstein sees no respite for the underlying problems before 1989 at the earliest

ALTHOUGH the performance of the American economy in 1987 is likely to be quite satisfactory, the problems and risks that lie just below the surface will be exacerbated by political neglect. The key risks to the outlook are the uncertainties about international trade and the dollar, uncertainties that are also very important for the economy's long-term evolution. Indeed, it is the potential clash between the neglected budget deficit at home and a shift in foreign investors' willingness to continue their rapid increase of investment in dollar securities that represents the greatest threat to the economy's future.

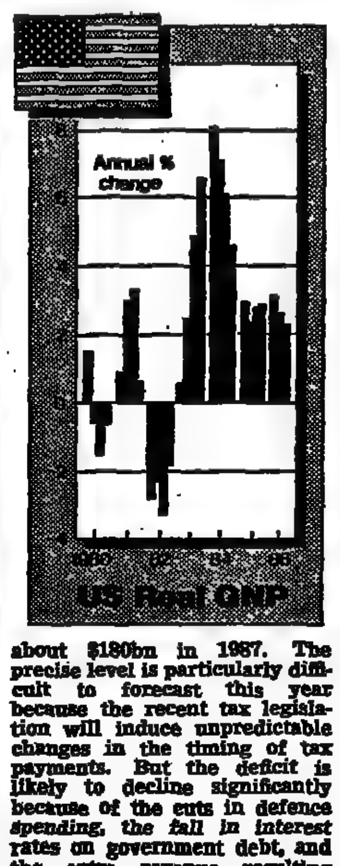
The strength of domestic demand in the US has fortunately been substantially greater in 1986 than the headlines about the weak growth of GNP would suggest. Although real GNP rose only 2.3 per cent in the year between the third quarter of 1985 and the third quarter of 1986, domestic final demand increased by a very substantial 3.8 per cent. The primary reason for this difference was the sharp rise of net imports, an increase equal to 1.4 per cent of GNP. Although domestic demand was strong, more than a third of the demand growth was siphoned away into increased net imports from abroad.

The contrast between weak GNP growth and the strong rise in domestic final demand was even greater in the most recent six months for which data are available. Between the first and third quarters of 1986, Real GNP grew at a rate of only 1.7 per cent while real domestic final demand rose at a startling 6.2 per cent annual rate.

The powerful recent growth of demand implies that GNP in 1987 can expand at a healthy rate despite an inevitable slowdown in the growth of domestic spending. Virtually every major category of domestic demand can be expected to grow more slowly in the months ahead than in the past year. Consumer spending has been on a credit-financed surge that will slow as consumers seek to rebuild their saving rate and contain their credit exposure. Business investment will slow down because of the anti-investment features of the recent US tax bill and as a natural reaction to the accelerated 1986 pace of investment, aimed at capturing the depreciation rates that prevailed under the old tax rules. And the deficit-cutting legislation enacted in 1986 will mean a slower growth of outlays for defence and non-defence programmes.

But even if domestic demand growth were to fall to only one-third of its pace in the past two quarters, demand would be growing at an annual rate of more than 2 per cent. The total rise in GNP would be boosted above this rate by the likely rebuilding of recently depleted inventories and, even more important, by a reduction in the trade deficit in response to the dollar's sharp decline since the beginning of 1985. If the merchandise trade deficit shrinks by the roughly $30bn which experts now project, that will add threequarters of a per cent to the GNP growth rate, bringing the overall rate up to nearly 3 per cent. If domestic demand expands at 2.5 per cent or faster, overall GNP could even rise by more than 3 per cent.

US Trade Deficit



US Real GNP

These figures make it clear that a turnaround of the trade deficit holds the key to satisfactory GNP growth in 1987. A repeat of the 1986 trade deterioration would leave GNP growth well below 2 per cent and cause unemployment to rise. But this is very unlikely. The US trade deficit can be expected to decline because the dollar's fall since February 1985 has erased threequarters of its previous real increase against a very broad basket of currencies. Although the month-to-month trade statistics are so inaccurate that it will be difficult to identify a turn in the trade deficit with confidence, I now believe the US trade deficit has either already begun to shrink or will start to decline within the next few months.

The legislative actions taken in 1986 and earlier years will reduce the government's budget deficit from 1986's $220bn to about $180bn in 1987. The precise level is particularly difficult to forecast this year because the recent tax legislation will induce unpredictable changes in the timing of tax payments. But the deficit is likely to decline significantly because of the cuts in defence spending, the fall in interest rates on government debt, and the extra revenue resulting from the 1984 "downpayment" tax package. In contrast, the slower than predicted GNP growth in 1986 actually raised the deficit, contrary to the predictions of those who had hoped the US would grow its way out of massive deficits.

Although a 1987 deficit of about 4 per cent of GNP is substantially better than the 6 per cent of GNP that would have prevailed without the legislation of the past few years, it is still far too high. With the deficit at this level, government borrowing will be absorbing half of all of the net savings of households, firms and state and local governments.

Unfortunately no legislative progress on the deficit is likely in 1987. The Republican loss of the Senate in the recent election means that Congress lacks the ability to send clearly bi-partisan legislation to the White House. With the bi-partisan blame-sharing mechanism gone, the only likely result is a budget stalemate.

The absence of any additional legislative progress in reducing future government borrowing creates the risk of a substantial rise in real interest rates. The key to this threat is the potential behaviour of foreign portfolio investors. If foreign investors are willing to go on supplying massive amounts of additional credit to the US, interest rates can remain at the current level or even decline in the year ahead. The progress that has already been made in deficit reduction would lower interest rates. Similarly, the effects of the recent tax legislation on the demand and supply of credit should also put downward pressure on interest rates.

But in the current environment, a reduction in the willingness of foreign investors to buy US dollar bonds could cause a jump in interest rates. If foreign investors decide that high real interest rates in West Germany and the likely future movements of exchange rates make German bonds a more attractive investment than dollar bonds, the exchange value of the dollar could drop sharply. The lower dollar would mean a smaller future trade deficit and therefore reduce inflow of foreign capital. The capital markets would respond to this prospect by immediately raising long-term real interest rates.

After a year in which the Federal Reserve has cut the discount rate four times and allowed the monetary aggregates to grow faster than the upper limits of their target ranges, the Fed would be in no position to offset such upward pressure on interest rates by a further easing of money. Any easing of monetary policy could increase the fear of inflation and further depress the dollar's value. In this context, an easier monetary policy could actually increase both nominal and real interest rates.

A fall in the dollar and rise in real interest rates could destabilise economic expansion and push the economy into recession. Although the lower dollar would give a boost to net exports and therefore total economic activity, higher real interest rates would depress investment in plant and equipment and other interest-sensitive kinds of spending. There is no way to know which of these forces would have a more powerful impact on the economy's short-term performance. If the contractionary impact of higher interest rates is stronger than the expansionary impact of the lower dollar, the economy would be pushed into recession.

That risk is one of the adverse effects of the US failure to take action to reduce the budget deficit in earlier years when its potential magnitude first became clear. Now it is a risk that the US and the world economy wil have to live with until at leas 1989, when there will be a new Congress and a new president.

The author is president of the US National Bureau of Economic Research.

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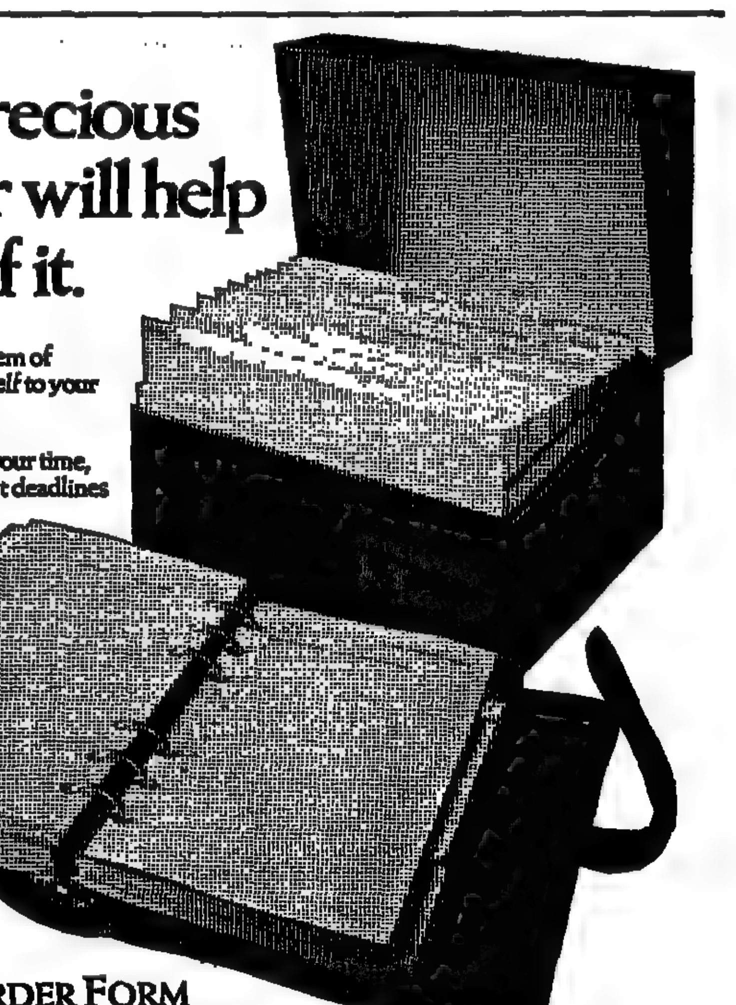

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Roderick Oram on Wall Street

Last chance of present from Santa

If Santa Claus should fail to call Bears may come to Broad and Wall.

INVESTORS could suffer if Santa Claus fails today to take his last chance to deliver a traditional year-end rally to the New York Stock Exchange. Bear markets have almost always followed seven no-shows in the past 34 years.

Last Friday's robust rise won back ground lost over Christmas but the S & P 500 will still need to gain 4.50 points today, or the Dow Jones industrial average 22 points, to match past rallies. Together, the last five trading days of the old year and the first two of the new have brought average advances of 1.84 per cent, according to the 1987 Stock Trader's Almanac.

Optimistic investors might have heard the distant tinkle of sleigh bells in the market's surge on Friday. But perhaps it was nothing more than another strong Friday. The almanac points out that the last day of the week has been the most bullish with gains three times out of five over the past 33 years.

Conversely, the Santa rally's last gasp this year occurs on a Monday, certainly the glummest day of the week with markets falling three occasions in five over 33 years. Its reputation of "blue Monday" was earned by scything a cumulative 1,478 points from the Dow industrials over the period. The other four days worked hard to bring a net gain of 1,255 points.

Faced with today's Herculean task, brokers had better keep up their strength with a long lunch. It appears that anticipation and savouring of a good meal seems to whet appetites for shares. The almanac reveals that the hour before lunch and the hour after are the market's best.

But should the market fall short today, relax. Disoriented by tax reform, Santa Claus may have dumped his presents down the wrong chimney. Heavier-than-usual tax related-selling has depressed the market and might have disrupted the pattern, according to Mr Yale Hirsch, author of the almanac which he originated 20 years ago.

Longer-term patterns, however, should hold up, he says. Most crucial of these is the January barometer by which the market's performance in the month holds true for the year. It has never been wrong in odd-numbered years – like 1987 – for half a century, Mr Hirsch's studies show.

Politics will exert a profound influence on the markets this year, the last in the four-year presidential election cycle, the almanac notes. Understandably, incumbents try to pave the way for a successful election by ensuring prosperity. Over the past 154 years, stock prices have posted cumulative net gains of 280 per cent in the year before an election, compared with 235 per cent in election years, a net loss of 36 per cent in post-election years and a net gain of only 70 per cent in mid-term years.

"There has not been one losing pre-election year in 47 years," Mr Hirsch notes. The few exceptions before that were usually triggered by war or presidential scandals, such as the Teapot Dome affair of 1923. "Odds are excellent that the record will remain intact in 1987."

Overall, Mr Hirsch is a long-term bull. He believes the market is in its third great recovery this century from bouts of inflation. The two previous periods after the world wars brought gains of more than 500 per cent. On that form, the Dow industrial index should be bouncing back from high inflation of the 1970s to top 3,420 by 1990.

While the almanac's analysis is based on thousands of hours of study and calculation, several simple measures can be found elsewhere.

The direction of the market will be set, for example, by a football game on January 18. The 21st Superbowl will pit the best team in the National Football Conference against the top side in the American Football Conference to determine the US champion. In 18 of the past 20 years, NFC victories have brought up-markets and AFC triumphs down-markets. With play-offs still underway, no favourite has yet emerged.

Investors could also do worse than to trade on the length of ladies' skirts. Prices – and pulses – rise and fall in relation to hems. The current vogue of longish skirts with deep slits up the side could indicate a tussle between bulls and bears.

Sceptics surrounded by cascading computer printouts and other trappings of an obsessively analytical age probably view these tools with the disdain that nuclear magnetic resonance imaging technicians reserve for stethoscopes

"I wouldn't bet my last dollar on that stuff," said one market analyst, "but . . ."

UK CHANCELLOR WANTS COMPANIES TO RAISE CAPITAL DIRECTLY FROM SHAREHOLDERS

Call for wider share ownership

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

MR NIGEL LAWSON, Britain's Chancellor of the Exchequer, has called for changes in the City of London's rules to allow major British companies to raise additional capital directly from new shareholders, rather than through traditional rights issues.

In an interview with the Financial Times, he said such a move would boost wider share ownership in Britain. It could also ease the pressure on companies to produce short-term profits at the expense of longer-term strategy, by reducing their dependence on institutional shareholders.

Mr Lawson, in a confident mood over the economic prospects for 1987, said he anticipated a year of stronger and more balanced growth in Britain, with exports taking over some of the role of consumer spending in encouraging increases in output.

He reaffirmed the Government's aim of reducing the basic rate of income tax to 25p in the pound and hinted that reductions in higher rates of income tax were now nearer the top of its list of priorities.

The comments come amid growing expectations in the City of London that the Chancellor will be able to cut the basic income tax rate by 2p in his spring budget and, if oil prices continue to recover, perhaps by more.

Mr Lawson also restated his view that sterling's adjustment to last year's collapse in the oil price was now complete: "I do not want it (sterling) to fall any further."

He rejected suggestions that Mrs Margaret Thatcher, the Prime Minister, had been reluctant to raise interest rates to defend the pound when it had been under pressure. Nobody liked putting up interest rates but: "This has been a government that has been prepared to do things that are unpopular if it believes they are necessary."

At the same time the Prime Minister's doubts about British membership of the European Monetary System's exchange rate mechanism had tended to be exaggerated.

The Chancellor reaffirmed the Government's long-term aim of attaining price stability, although he was reluctant to say how long it would take to achieve. What was certain, he said, was that each successive peak and trough in the inflation rate was lower than the last, a process he was confident would continue.

Among other priorities if the Government won a third term in office were more privatisation and efforts to broaden share ownership, reform of the private rented housing sector and progressive, though not dramatic, reductions in public spending's share of national output.

Mr Lawson's call for the London Stock Exchange and the financial institutions to allow companies to widen their shareholder base by attracting private investors as new shareholders will prove controversial.

The Treasury believes that the success of the privatisation of companies such as British Telecom and British Gas has shown that there is a huge market among individual investors which could be tapped by well-known companies in the private sector.

At present, quoted companies raise new capital either through rights issues or by placings with major institutions, a process which Mr Lawson said reinforces the dominance of institutional investors in British industry.

The Chancellor's suggestion, however, is likely to be seen by the pension funds and life assurance companies as a potential threat to the position of existing shareholders, which have fiercely defended in past debates over so-called pre-emption rights.

Turning to other priorities, Mr Lawson said the Government hoped to make a "significant move" in the direction of regional pay variation in the Civil Service during negotiations with civil service unions in coming months.

He also indicated that he was still enthusiastic about the idea of providing a modest tax incentive to encourage profit-related pay in the private sector, although he had not decided whether to do so in his spring budget.

Monday Page Interview, Page 19

Guinness considers legal action over 'inaccurate' news reports

BY PAUL CHEESERIGHT AND CLAY HARRIS IN LONDON

GUINNESS, the UK brewing and leisure group, is considering legal action in an attempt to quell the speculation surrounding its actions during last year's contested £2.5bn takeover of Distillers.

Decisions will be made this week about possible legal action against newspapers which, in the Guinness view, have been guilty of inaccurate reporting.

The Department of Trade and Industry (DTI) is investigating the methods used by Guinness in the takeover. Last week it emerged that £7.5m ($10.5m) of Guinness money had been used to purchase 2.1m shares in the company in an effort to keep the price high during the takeover battle. The transactions could have contravened the Companies Act.

Yesterday, Guinness refused to confirm or deny a report in The Observer newspaper that Mr Olivier Roux, the finance director, had personally signed a £7.6m cheque to finance the purchase of the shares by Down Nominees, a subsidiary of Ansbacher, the City of London merchant bank.

Three developments have brought Guinness to the point of considering legal action: charges of illicit share dealings; open speculation that the non-executive directors of Guinness want the removal of Mr Ernest Saunders, the chairman; and a well publicised wrangle between the company and Morgan Grenfell, its merchant bank adviser during the takeover.

There has been an open day on Guinness, a spokesman said. "Our position is that our fate is in the hands of the DTI report," the spokesman went on. As the goodwill of the DTI investigators was important, it was not in the interests of the company to speak to anybody. But there was a limit to what people can be allowed to write, he said.

"The Guinness lawyers could get tough this week." The lawyers in question are Sir David Napley and Kingsley Napley, his law firm, which was appointed by Guinness just before Christmas.

A more aggressive approach would coincide with the return to London this week of Mr Saunders from a skiing holiday.

In his absence, Guinness has confined its comments on the Down Nominees share affair to three points. First, in relation to an Ansbacher allegation that, if Ansbacher thought that the shares were bought by Guinness using Guinness funds, then Ansbacher was mistaken.

Second, no authority was given by Guinness to Morgan Grenfell for the use of its funds to acquire the shares (a point contested by Morgan Grenfell).

Third, the Guinness account of events will be given to the DTI investigators.

These points applied to the specific report in The Observer, the Guinness spokesman said. Mr Roux himself was not available for comment.

Guinness would like a rapid conclusion to the DTI investigation so that the clouds over it might be lifted, but Guinness does not expect a report within the next few months.

And Mr Robin Cook, the Labour Party's trade spokesman, has demanded an interim DTI report. The spate of recent allegations meant that parliament, the City of London and Guinness shareholders and staff could not wait for a full report, which could take a year to complete, he said yesterday.

● Morgan Grenfell is set to appoint Mr Charles Peel of County Securities as its new chief equity trader. He would succeed Mr Geoffrey Collier who resigned after allegations of insider trading, about which he faces criminal charges. Mr Peel is negotiating an employment agreement with Morgan Grenfell.

GMAC to raise $1bn with medium term notes

By Alexander Nicoll in London

A NEW debt instrument seems poised to play an important role in the Euromarkets this year following an announcement by General Motors Acceptance Corporation (GMAC), financing subsidiary of the US carmaker, of a $1bn fund-raising programme.

The instrument is the Euro medium-term note, a security with a maturity longer than one year. It differs from a conventional bond – issued in large one-off amounts with a lead manager and underwriters – in that medium-term notes can be issued in small amounts with differing maturities and are continuously available to investors to meet their portfolio needs.

In the US, medium-term notes (MTN) have developed into a $30bn market, but bankers' efforts to stimulate interest among borrowers and investors in the Euromarkets have been slow to bear fruit.

Pepsico, the US soft drink and foods concern, is the only borrower to have entered the Euro-MTN market in significant strength, with outstandings between $150m and $200m. Other programmes have been announced by several sovereign and corporate borrowers.

GMAC's decision to enter the Euro-MTN market – to be formalised later this month by a filing with the US Securities and Exchange Commission – is important because it gives a seal of approval from one of the debt market's biggest borrowers early in its growth.

Mr Jerome van Orman, director of US borrowings for GMAC in Detroit, said: "We believe this market can provide an additional source of funds at competitive costs."

GMAC's entry into the short-term Eurocommercial paper market last year was an important milestone in its growth. The Euro-MTN market is, however, less well developed than was the Eurocommercial paper market at the time of GMAC's arrival.

Many other borrowers, hesitant to launch a Euro-MTN programme because they were uncertain that a sizable market would develop, are now likely to do so with greater confidence. Investors are also likely to be attracted to the market by the presence of a core of benchmark corporate paper from GMAC.

Five dealers have been appointed by GMAC: Credit Suisse First Boston, Merrill Lynch, Morgan Stanley, Salomon Brothers, and Shearson Lehman Brothers. Notes issued under the $1bn programme will be of any maturity between 13 months and five years, and will be sold at their par value with fixed interest rates set at the time of issue.

Brussels seeks to finalise radical funding overhaul

BY QUENTIN PEEL IN BRUSSELS

THE European Commission will this week seek to finalise its draft proposals for a radical overhaul of EEC finances, involving long-range reforms of the Common Agricultural Policy (CAP), and a doubling of regional and social funds.

The document will form the basis of the 12-nation tour planned by Mr Jacques Delors, the commission President, to persuade all member states of the need for increased contributions to the community budget, linked to a thorough reassessment of major spending programmes.

The plan is unlikely to detail the precise level of national contributions required, for fear of alienating many of the governments before real negotiations have even begun.

The whole exercise is expected to last for most of 1987 and might stretch into 1988 before any conclusions are reached, although the community's financial crisis could come to a head by the middle of this year.

The commission's proposals include three main elements:

● Continuing reform of the CAP along the lines begun by farm ministers last month, with dairy and beef sector cuts.

● A doubling of the structural funds for social and regional spending, focused on the poorest regions.

● An increase in national contributions, possibly based on a given proportion of gross domestic product rather than, as at present, on value-added tax (VAT) receipts.

The report is set to replace the present EEC financing arrangements, which were agreed after prolonged and often bitter negotiations at the Fontainebleau summit in June 1984. That deal established the current formula for national contributions, the so-called 1.4 per cent VAT ceiling, which replaced the previous 1 per cent ceiling from January 1, 1986.

It also settled Britain's demand for a budget rebate, agreeing on an automatic two-thirds reduction in British net contributions until the VAT formula was changed, not before January 1, 1986.

The 1.4 per cent ceiling will be more than exhausted by EEC spending this year, although the budget has yet to be agreed by the two relevant authorities – the Council of Ministers and the European Parliament. If they settle on or about the figures currently on the table – for a budget of some Ecu 36bn ($38.6bn) – an extra Ecu 4bn or so will be needed by mid-year, because of the rising costs of agricultural support.

Mr Delors is determined not to go back to the member states simply asking for a marginal increase in contributions which would be exhausted in months. He would prefer to link a new cash deal to a rethink of policies, in the hope of reaching a more generous final settlement.

In spite of the need to show strict budget discipline – at least as far as Bonn, London and Paris, the three net contributors, are concerned – the commission is proving most enthusiastic about the plan to expand regional and social funds.

Proposals by Mr Grigoris Varfis, who is responsible for co-ordinating spending of all the so-called structural funds in poorer areas of the community, would both double their size and raise their contribution in the neediest regions from 50 per cent to 75 per cent of specific projects.

World Weather

		°C	°F
Ajaccio	S	13	55
Algiers	F	13	55
Amsterdam	C	3	37
Athens	C	9	48
Bahrain	S	19	66
Bangkok	C	26	79
Barcelona	S	11	52
Beirut	–	–	–
Belfast	C	7	45
Belgrade	C	-3	27
Berlin	C	-3	27
Biarritz	–	–	–
Bombay	S	19	66
Bordeaux	S	3	37
Brussels	C	3	37
Budapest	–	–	–
B. Aires	F	25	77
Cairo	S	19	66
Cape Town	S	24	75
Caracas	C	15	59
Casablanca	S	17	63
Chicago	Sn	1	34
Cologne	C	2	36
Copenhagen	Sn	-4	25
Corfu	S	13	55
Dallas	–	–	–
Dublin	R	11	52
Dubrovnik	S	4	39
Edinburgh	R	10	50
Faro	–	–	–
Florence	S	9	48
Frankfurt	F	1	34
Funchal	C	19	66
Geneva	S	2	36
Gibraltar	F	15	59
Glasgow	R	9	48
Guernsey	C	7	45
Helsinki	S	-24	-11
H. Kong	R	17	63
Innsbruck	Sn	0	32
Inverness	C	7	45
Islamabad	C	1	34
Istanbul	Sn	-1	30
Jakarta	R	22	72
Jersey	R	7	45
Jo'burg	F	27	81
Lima	C	20	68
Lisbon	S	9	48
London	R	7	45
Los Angeles	F	15	59
Luxembourg	C	-1	30
Madrid	S	8	46
Majorca	S	14	57
Malaga	F	14	57
Malta	–	–	–
Manchester	R	8	46
Manila	C	23	73
Melbourne	F	21	70
Mexico City	C	6	43
Miami	C	14	57
Milan	C	0	32
Montreal	C	-1	30
Moscow	S	-19	-2
Munich	F	-1	30
Nairobi	–	–	–
Naples	–	–	–
Nassau	F	23	73
New Delhi	S	20	68
New York	Sl	2	36
Nice	–	–	–
Nicosia	C	5	41
Oporto	S	11	52
Oslo	C	-19	-2
Paris	F	3	37
Peking	F	-4	25
Prague	F	-3	27
Reykjavik	Sn	0	32
Rhodes	C	15	59
Rio de J'o	S	36	97
Rome	S	10	50
Salzburg	–	–	–
San Francisco	F	10	50
Seoul	S	-2	28
Singapore	S	30	86
Stockholm	Sn	-15	5
Strasbourg	–	–	–
Sydney	S	26	79
Taipei	R	17	63
Tangier	F	17	63
Tel Aviv	S	18	64
Tenerife	S	20	68
Tokyo	S	10	50
Toronto	C	-12	10
Tunis	F	12	54
Valencia	S	12	54
Venice	S	4	39
Vienna	F	-1	30
Warsaw	S	-6	21
Washington	F	7	45
Zurich	F	0	32

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Brazil orders Mellon out

Continued from Page 1

But another argued that Mellon's withdrawal had made little sense as short term lending to Brazil still represented attractive, low risk, high profit business.

However, the developments are likely to do little to improve the atmosphere of the forthcoming negotiations, still dogged by subsidiary problems. Not least, it will make the job of the large, heavily exposed money-centre banks more difficult in persuading their smaller colleagues to toe the line and, possibly, provide new money.

Before the talks with the commercial banks begin, Brazil must agree terms of a 1985-1986 rescheduling with the Paris Club group of sovereign country creditors in discussions due to begin on January 19.

This concerns $2bn of Brazil's total $9bn country-to-country debt. The negotiations are also expected to look at the more difficult question of terms for sovereign debt falling due this year – a benchmark for the commercial banks.

Mr William Rhodes, the Citicorp chairman of the commercial banks' negotiating group, has made clear that no country can expect as a right terms as favourable as those granted to Mexico

Also to be resolved are outstanding disagreements over reimbursement of $450m in funds lost by foreign banks in the 1985 collapse of three Brazilian banks

THE LEX COLUMN

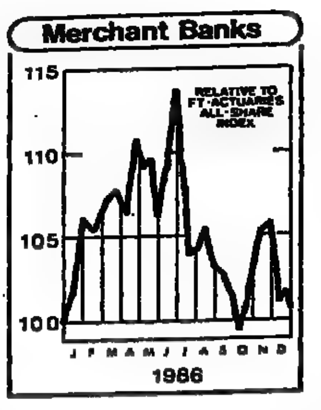
Thinking time for the Panel

It would be pleasant for the City of London to think of the battle over the corpse of Distillers as somehow unrelated to takeover techniques as practised in other bids.

Mr Roger Seelig of Morgan Grenfell may have been the most daring exponent on the staff of the City's most aggressive corporate finance practitioners, but his resignation does not mean that the City has been purged of its excesses in the field of mergers, any more than the resignation of Mr Geoffrey Collier from the same firm ended the problem of insider dealing.

One of the latest controversies in the Guinness saga surrounds the undeclared use of indemnities to encourage institutions to ramp the Guinness share price at a crucial stage in the battle between Argyll and Guinness for Distillers.

The use of indemnities first came to light in October when the Takeover Panel castigated Hill Samuel for not declaring indemnities given to acquirers of the shares of AE. That arrangement came to light only because the shares were crudely dumped on the market immediately the bid was fought off. It seems fairly certain that Hill Samuel did not believe that its actions were dissimilar from the actions used in earlier bids by some of its rivals.



Indemnities

The Takeover Panel's objection to Hill Samuel's actions was merely that they were not declared. The argument is that if the arrangement is disclosed then shareholders can judge that the share price has been inflated by actions made on an abnormal investment basis by associates.

But it is impossible to assess the impact on a share price of such actions, even if they are declared. There is a school of thought that all such indemnities are a *prima facie* breach of the Companies Act, which forbids the giving of financial assistance by a company for the purpose of the acquisition of its own shares, except under the most carefully monitored conditions.

The argument is that at the end of the day the merchant bank will always be reimbursed by its client, even if the payment is not made directly. If this was true, then the Takeover Panel could safely leave the matter to the boys in blue. But Hill Samuel has said that it did not tell its client of the service it was providing and that it received no recompense for the £4m cost of fulfilling the indemnity. The Panel would do well to stamp out the practice altogether.

Support

Yet the giving of indemnities is only the logical extension of the kind of support operation which has become commonplace during contested takeovers. The buying of the bidders' shares to enhance the value of the offer is frequently carried out by institutions as a result of friendly pressure by the bidders camp.

And this is only the counterweight to the downwards pressure that will have been exerted on the bidder's shares by the friends of the target or rival bidder. But it would be too great an infringement of free trading in the market to forbid this practice, even were it practicable. Such action would leave too great a void which would be filled by the arbitrageurs.

Aside from the question of undisclosed indemnities, the Guinness Distillers affair has put the issue of supportive share purchases by business associates of bidders into the front line. It was clearly a breach of the Companies Act by Rapid-American not to declare that it had built up a 5 per cent stake in Guinness incurred in its support for Guinness against Argyll. Yet the more interesting point is that as a distributor of some Distillers products in the US, Rapid-American could have gained by successfully backing the bidder it may have believed was more likely to renew the distribution agreements.

Takeovers should be decided on the basis of the best interests of the shareholders of the target company. It is no good if, in a two horse race for control of a company, the winner is the bidder which is seen as the best guarantee of an easy life for the existing customers of a badly-run company.

Clause 37

Yet until 1984 it would have been impossible for such manoeuvres as Rapid-American's to go undetected. In that year the Takeover Panel dropped clause 37 from the code, which stated that "a person with a significant commercial interest in the outcome of an offer" could not deal in the shares of bidder or target without the prior agreement of the panel.

The Takeover Panel abandoned this ruling on the grounds that it was becoming impossible to enforce, and that it was very difficult to distinguish between significant and insignificant commercial interests. Yet this seems as much an admission of a level of incompetence as of competence. As a body whose very virtue is the ability to make tough decisions quickly – unlike the DTI or the courts – the panel should not shirk such duties. Clause 37 should be dusted off.

In the pass-the-parcel of Guinness shares being carried out last week between Morgan Grenfell, Henry Ansbacher and Guinness itself, the confusion centred on the true beneficial ownership of shares held in a nominee account. Normally the confusion afflicts – as it is designed to – only those not directly involved in such transactions, as in the Westland saga.

But confusions over identity are never right in a market which should, particularly when a company's entire future is at stake, be transparent. The panel should consider permitting target companies to disenfranchise, before the closing date of the bid, nominee shareholders who do not disclose their beneficial ownership.

Doubtless the panel is preparing to mount a major review of its procedures in the wake of the publication of the DTI's report on Guinness. But it must quickly take the high ground unless it is prepared to see a nervous Government impose a regulated regime on the City's merger maniacs. This is now a matter of great interest to the wider public, and critical to the image that the City presents to those who will decide its future freedoms.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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday January 5 1987

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INTERNATIONAL BONDS

Denmark heads the borrowers with $7bn

BY ALEXANDER NICOLL IN LONDON

DENMARK was never far from the syndicate manager's mind in 1986, and the year's statistics show why.

According to figures from IDD Information Services in New York, the kingdom was by far the biggest borrower in the Eurobond market during the year. It made no less than 34 issues worth a total of $6.97bn, more than five times the $1.3bn it borrowed through 14 issues in 1985.

Denmark has already taken steps to curb the soaring balance of payments deficit – estimated at DKr 33bn for 1986, nearly double the official forecast a year ago – which has caused the surge in borrowing. The Eurobond market, though it has mostly welcomed the Danish paper, will nevertheless be closely monitoring official efforts to curb domestic growth.

Denmark's penultimate issue of 1986 was significant for other reasons too. It was a Y130bn deal which easily beat the previous record of Y80bn for the Euroyen market and underlined the growing importance of that sector and of Japanese houses themselves during the year.

Overall, a record $182.65bn worth of Eurobonds were issued in 1986, 36 per cent up on the $134.51bn launched in 1985, which itself was 71 per cent up on the 1984 total.

Though the totals for all four leading currency sectors have increased sharply, the dollar's share of the market has declined from 70 to 63 per cent, and the yen's has doubled from 5 to 10 per cent.

The yen thus ousted the D-Mark as the second-largest currency sector, though the D-Mark's share also rose from 8 to 9 per cent. New issue volume in the Eurosterling market doubled in size and also gained in market share from 4 to 6 per cent, displacing the Ecu.

The growing volume of yen issues is partly responsible for one of the year's most striking phenomena: the climb of the Japanese houses up the lead managers' league table.

Credit Suisse First Boston easily held on to first place. Indeed, it would have done so even if it had not led the $4bn floating-rate note which by itself made the United Kingdom the second-largest Eurobond issuer after Denmark. Though CSFB's market share dropped from 14.3 to 10.8 per cent, it was still well ahead of the pack.

Immediately below CSFB in the table, there was less close bunching than in 1985. Nomura Securities jumped from eighth position to second, more than doubling its market share from 3.8 to 8.1 per cent, and Deutsche Bank also raised its market share from 5.8 to 6.8 per cent in rising from fifth to third.

Five other Japanese houses – the three other securities firms and two banks – appear in the top 20 bookrunners. The combined market share of the six of them more than doubled from 10.3 to 21.3 per cent. The leaps they made to get to their 1986 positions can be seen in the accompanying table.

Given the increasingly competitive nature of the market and the aggressive pricing which has helped to get some houses to their positions in the table, many in the market would argue that league table rankings are no guide to profitability and that the prominent may not always be the prudent.

None the less, some of those who have taken a tumble in the charts might prefer not to have done so. Merrill Lynch has fallen from second to ninth and Goldman Sachs from seventh to 14th. Bankers Trust has slipped just out of the top 20, and Orion Royal Bank, Lloyds and County NatWest have all suffered sharp falls in their rankings.

On Friday, Warburg Securities took the early lead for 1987 by launching two five-year Eurosterling issues which took advantage of the strength of sterling and the gilts market on the back of higher oil prices and bullish economic forecasts.

The £100m issue for Deutsche Bank Finance, launched 40 basis points below the comparable gilt yield, and the £50m deal for Kredietbank, launched 20 below gilts, both did well and met early retail buying although the real test is more likely to come today – particularly if many more borrowers decide to leap through the window of opportunity which allows them to swap into floating-rate funding at attractive rates below Libor. A shortage of five-year paper has recently brought Eurosterling yields well below gilts.

EUROMARKET TURNOVER
Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	1,171.7	6.5	750.2	1,167.5
Prev	1,031.2	19.9	2,051.9	2,358.2
Other	70.9	95.1	4.4	18.1
Prev	845.0	—	981.4	149.1
Secondary Market				
US$	8,275.9	678.8	3,478.7	2,501.1
Prev	19,347.4	1,038.5	10,098.3	5,144.9
Other	4,672.5	83.3	772.1	2,889.7
Prev	10,252.9	75.4	2,082.3	4,286.5

	Cedel	Euroclear	Total
US$	6,292.2	11,732.4	18,024.6
Prev	14,764.3	26,281.8	41,046.1
Other	3,463.4	5,152.7	8,616.1
Prev	7,389.1	10,643.5	18,032.6

Week to Dec. 31, 1986 — Source: AIBD

Other sectors of the primary and secondary markets were extremely quiet last week with a handful of specialty issues. Friday's business, however, was important because it heralded a new age in the secondary market. From that day, the 128 companies now registered as "reporting dealers" have undertaken to report their closing quotations – bid and offered prices – on all bonds in which they make markets to the Association of International Bond Dealers by 7.30pm London time each day. From March, the data will also include high and low traded prices for the day.

The moves should not only aid self-discipline and liquidity within the market. They also mark a key stage in the planned transformation of the AIBD from a trade association into a recognised investment exchange which will fit into the UK's new regulatory structure.

● Samuel Montagu is arranging a £75m sterling commercial paper programme for SmithKline Beckman, the US health care company, with Kleinwort Benson and Morgan Grenfell as additional dealers.

American Express Overseas Credit Corporation has appointed Shearson Lehman Brothers International as dealer for a $100m Eurocommercial paper programme.

Eurobond issues by currency table, Page 18

TOP 20 EUROBOND LEAD MANAGERS

Manager	1986 $bn Amount	1986 Rank	1986 Market share %	1986 Issues	1985 $bn Amount	1985 Rank	1985 Market share %	1985 Issues
Credit Suisse First Boston	19.912	1	10.8	102	19.208	(1)	14.3	103
Nomura Securities	14.803	2	8.1	131	5.086	(8)	3.8	68
Deutsche Bank	12.444	3	6.8	91	7.839	(5)	5.8	78
Morgan Guaranty	9.897	4	5.4	65	7.986	(3)	5.5	63
Daiwa Securities	8.953	5	4.9	86	2.986	(11)	2.2	38
Morgan Stanley	8.863	6	4.8	74	6.639	(6)	4.9	66
Salomon Brothers	8.236	7	4.5	64	7.843	(4)	5.8	67
Banque Paribas	7.002	8	3.8	66	3.377	(10)	2.5	38
Merrill Lynch	5.971	9	3.3	40	7.925	(2)	5.9	48
Nikko Securities	5.141	10	2.8	54	1.817	(22)	1.4	22
Union Bank of Switzerland	4.874	11	2.7	46	3.837	(9)	2.8	38
Yamaichi Securities	4.440	12	2.4	59	2.243	(23)	1.7	32
Shearson Lehman Brothers	4.137	13	2.3	32	2.482	(18)	1.8	16
Goldman Sachs	3.621	14	2.0	22	5.410	(7)	4.0	41
Société Générale	3.109	15	1.7	27	2.090	(21)	1.6	28
Industrial Bank of Japan	3.034	16	1.7	25	0.870	(34)	0.6	10
Swiss Bank Corp	2.886	17	1.6	33	2.547	(14)	1.9	28
S.G. Warburg	2.789	18	1.5	24	2.399	(17)	1.8	25
Commerzbank	2.713	19	1.5	30	2.548	(13)	1.9	39
LTCB of Japan	2.593	20	1.4	21	0.825	(36)	0.6	11
Industry Totals	182.651			1,633	134.512			1,386

Note: Full credit given to book runner — Source: IDD Information Services

FINANCIAL FUTURES AND OPTIONS

Responding to the challenge

BY HAIG SIMONIAN IN LONDON

THE FUTURES industry has not had a bad year. Not vintage, admittedly, but, whether they are freezing in Chicago or baking in Sydney, futures folk around the world should be looking back on 1986 – and forward to the year ahead – with some satisfaction.

Of course, the year has had its usual disasters. After a headlong race to get into Ecu futures and options – won by the European Options Exchange in Amsterdam – senior executives there and in the three US exchanges trading Ecu futures and options are probably still wondering if it has all been worth the candle.

Hit partly by the downturn in Ecu bonds, Ecu futures and options have been a disappointment on every floor where they are traded though no one is yet talking about delisting.

International links between futures and options exchanges, inaugurated by the Chicago Mercantile Exchange (Simex) in 1984, were one of last year's main talking points. They are likely to remain so in 1987 as round-the-clock risk management instruments become increasingly important to a securities industry busily going global.

Japanese investors are still prevented from trading foreign futures, though they can do so through foreign subsidiaries. Provided their appetite for underlying cash market debt instruments – notably US Treasury bonds – remains strong, they should, however, be keen takers of hedging instruments such as futures if they are available nearby. The success of the Tokyo futures market in government bonds shows their enthusiasm.

Exchanges in the Far East and Pacific time zones are therefore jostling to show the Japanese their wares. By forging fungible trading links with markets in the US and Europe, they are also well placed geographically to give investors elsewhere the chance to trade most of the way around the clock.

The fast-growing Sydney Futures Exchange (SFE) made last year's boldest grab at the 24-hour market when in October it joined forces with the London International Financial Futures Exchange (Liffe) to trade US Treasury bond and Eurodollar interest rate futures. Investors can now buy identical contracts on one exchange and sell them on the other, letting them hedge their exposures for up to 17 hours a day.

The SFE followed in November with a fungible gold futures link with the Commodity Exchange (Comex) in New York. However, the SFE's turnover for its shared contracts with Liffe has been very disappointing. The local market in Sydney, which has grown extremely quickly in the past two years, is stretched for both space and talent. Sydney traders are concentrating on the domestic contracts they know best. Moreover, business out of Chicago, the home of US Treasury bond futures, has been muted so far.

However, plenty of other international links are planned for 1987. Even exchanges which have fought shy of link-ups have responded to the global challenge by extending their hours to cater for clients in other time zones.

The Chicago Board of Trade (CBOT), the world's leading futures market, is playing its cards close to its chest when it comes to forging new alliances. It has been keen to strike deals with other exchanges to gain access to foreign equity index contracts but wary of committing itself to fungible contracts.

The CBOT could adapt to the needs of overseas clients by extending hours for contracts which are in the heaviest demand internationally. Running a small overnight operation is one idea which is being considered.

The signs are that the CBOT is following two different tacks. Extending hours seems to be its philosophy for contracts, like US Treasury bonds, where it is the established world leader. Yet fungibility is seen as appropriate for other ventures, such as the new yen bond and Eurobond futures contracts it is devising with Liffe.

In 1986 government bonds probably edged out equity indices as the industry's brightest hope for the future. Helped by the worldwide tide of deregulation and the internationalisation of investors' portfolios, turnover in government bond futures has been soaring the world over.

Liffe has been one of the biggest beneficiaries. Turnover in its 20-year long-gilt future has gone up from just over 5,000 contracts a day last January to some 18,750 by November. The average size of transactions has increased too.

Across the Channel, the Matif, the French government bond futures market, has enjoyed an even bigger boom. Some 20,000 notional long-bond futures contracts are now changing hands every day, only 11 months after the exchange opened its doors last February.

Other exchanges are waiting in the wings. Bourses in Madrid, Milan and Stockholm are doing their homework on government bond futures and options. The Swiss are concentrating on equity index options, with financial futures poised to follow somewhat later.

Government bond futures are likely to get their biggest fillip later this year when Japanese government bond futures – probably the industry's most ambitious venture to date – come on stream at Liffe in April or May. If all goes to plan, the same contracts should be available in fungible form at the CBOT by mid-year.

Talk of equity index futures was dominated throughout last year by the "triple witching hour." Not a reference to Macbeth's three hags, but the term coined to describe the simultaneous expiry on US markets of stock index futures and options contracts. Some investors might have felt the resulting swings in share prices were a tragedy, but efforts to iron out the effect of expiring arbitrage positions have already borne fruit.

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

Strong performance confounds the gloom merchants

UK GOVERNMENT bond prices have started the year on an extremely strong note, so much so that the Government Broker took the opportunity to issue another tranche of stock.

The £1bn tap stock of 10 per cent Treasury bonds maturing in 1994 is, like much of the Government's new paper in recent months, tax free to residents abroad and it looked on Friday as if overseas buying was beginning to have a significant effect on the market.

Although the Government's net funding position looks undemanding, there is a heavy schedule of redemptions and there is likely to have been some buying-in of stock early. In any case, it would have been unusual if the authorities had not taken the opportunity of the strongest performance by gilts for some months to do some business.

After months in the doldrums, the market now appears to have taken off, defying the gloom merchants who were battening down the hatches for a January sterling crisis and a further rise in yields.

On Friday, yields on long-dated gilts were down to about 10.25 per cent compared with more than 11 per cent not too many weeks ago as sterling not only rose strongly against the beleaguered dollar but also held its own against the D-Mark.

To some extent, the buoyancy of both sterling and gilts has been due to some early discounting of a Conservative victory in the general election which looks, at least in the last weeks of 1986, likely for early summer.

In sketching out likely trends in the UK bond market in 1987, it is quite possible to see a good run past the Budget and up to an early summer election, if the polls continue to show the Conservatives holding on to a healthy lead and sterling remains buoyant.

Given what appear, at least at the moment, to be diminishing currency risks on UK bonds, the extremely attractive yields available compared with other markets would suck in foreign funds. Last week saw some switching out of Japan and West Germany and a healthy inflow from the US market which is labouring under what appears to be an increasing currency risk.

But there is a danger with taking investment decisions based on hopes of a particular election result several months ahead. This risk was underlined by the Mori poll in yesterday's Sunday Times which showed that the Conservative lead over Labour had been cut to a very slim one point.

The lead story in the Observer highlighted the results of the Department of Employment's job census which is published in full on Thursday. Revelations such as this could prove to be another banana skin for those in the City whose confidence in a Conservative victory has been building steadily over the past few weeks.

It will be interesting to see whether the current rally proves durable enough to shrug off negative influences such as these.

Assessing the longer-term performance of the gilts market after a general election is difficult. Assuming a working Conservative majority, the market would be waiting to see whether Mrs Thatcher finally gave in to her advisers and took sterling into the European Monetary System.

Mr Malcolm Roberts, chief economist at Salomon Brothers in London, said he expected gilts to make further gains in the run-up to the election of perhaps 75 basis points at the long end but that there was a risk of a sharp downward correction later in the year.

He said that yields could end the year higher than current levels if the Government had not opted for the EMS. But if the decision were to be taken reasonably quickly, yields could fall sharply.

EMS apart, the prognosis for the coming year depends very much on taking a view on trends in inflation and the current account. If the Confederation of British Industry's recent figures on wage settlements prove to have heralded a trend, the inflation rate could turn out nearer the Government's fourth-quarter forecast of 3½ per cent than the independent consensus of nearly 5 per cent. Only time will tell.

Janet Bush

US MONEY AND CREDIT

Consensus on economy weakens

THE BROAD consensus on US economic outlook which existed before the holidays has begun to unravel with some analysts suggesting that the New Year might bring more robust growth than expected previously.

There was little chance last week, however, to give new theories a proper test with either economic data or market reaction. Two major statistics, the index of leading economic indicators and the trade deficit, were released, but the market will need more evidence to verify the indications they gave of faster growth and larger deficits.

The credit market's initial response was reasonably favourable, particularly with the dollar falling further and gold and oil prices rising above $400 an ounce and $18 a barrel respectively. A rousing rally on Friday left the price of the benchmark Treasury long bond down only ¾ points on the week.

Whether that was the market's final verdict on last week's news remains to be seen. Players were thin on the ground in holiday shortened trading and second thoughts might emerge today as business returns to normal.

The fate of the dollar looms over the market. The downward pressure on the currency which was expected this year was triggered early by last week's news of a record $19.2bn trade deficit in November. Although some special factors were at work, the figure showed an abrupt reversal in the recent improvement in US trade performance.

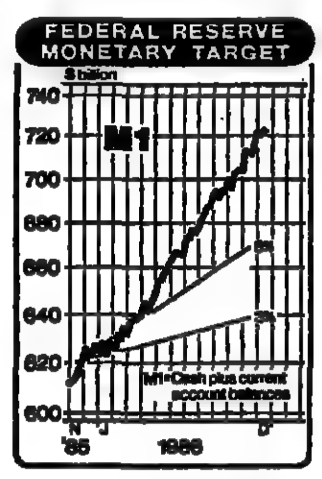
The setback "has cast greater than usual doubt on the degree to which an eventual improvement in the US external position will contribute to economic strength this year," noted bond dealers Aubrey G. Lanston. "The sharp reality seems to be that the dollar must fall further, not only in terms of major currencies such as the German mark, but especially in terms of the currencies of the newly industrialised countries such as Taiwan and South Korea which up to now have shown little appreciation in terms of the dollar."

Further dollar depreciation began directly after the deficit figure was released, pushing the currency down to six-year lows against the D-Mark. Perceptions among foreign investors of how much further the dollar will fall will crucially affect their appetite for US government securities. Moreover, the state of the dollar could well hamper the Federal Reserve's room for manoeuvre. It would be highly reluctant to push interest rates lower if that would further weaken the dollar and disenchant foreign investors.

"No doubt the last thing Fed policy-makers would want to see is a free-fall of the dollar," Lanston said. "Such a development could scare away foreign investors who are needed to help finance heavy US government and private borrowing needs and at the same time would add to the reawakening *fears of inflation*."

The warning signs were apparent in recent Treasury data which showed that foreign purchases of government securities levelled off in the third quarter, albeit at high levels. For the first nine months of last year, foreign purchases stabilised at about 19 per cent of the supply of new securities, up from 13 per cent in 1985 and only 4 per cent in 1984.

Total figures mask, however, changing patterns. The Japanese bought only 4½ per cent of the new supply in the first three quarters of 1986 against 12 per cent the previous year. The data is probably misleading because it fails to capture purchases through those foreign securities houses and banks which do not report to the Fed. But the broad trend is at least correct with Japanese enthusiasm falling as the yield spread between US Government and Japanese securities has narrowed. The yield on 10-year US bonds was 330 points higher than on their Japanese equivalents in June but the gap shrank to 180 basis points in late December.



In some people's minds, it is becoming a moot point whether the Fed needs to stimulate the economy by lowering interest rates. They believe economic growth will accelerate this year from the stodgy 2 to 3 per cent forecast because less activity than expected had been pushed into the fourth quarter of last year by the desire to benefit from the old tax code which expired at year-end.

November's rise of 1.2 per cent in the leading economic indicators, the best one month gain in almost two years, may not derail this theory because the figure *probably overstated* the true level of activity. Analysts will have to wait until the beginning of next month for the first indications of the level of activity early this quarter.

Meanwhile, a few more pieces of last quarter's jigsaw will slip into place with the release on Friday of December's employment and producer prices figures. Non-farm payrolls are expected to show a further healthy gain of between 200,000 and 250,000 jobs with November's rise in durable goods orders more than taking up the slack shown in the automotive industry. The new jobs should leave the unemployment rate unchanged at 6.9 per cent.

Producer prices are likely to show a 0.3 per cent rise in December compared with a 0.2 per cent gain in November. The *main factor* in the *marginal* acceleration will have been the initial stages of the pick up in oil prices.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	11.35	6.38	6.34	11.35	5.71
Three-month Treasury bills	5.55	5.55	5.44	7.28	5.01
Six-month Treasury bills	5.55	5.59	5.46	7.38	5.09
Three-month prime CDs	6.00	6.31	5.85	8.05	5.48
30-day Commercial Paper	6.10	6.90	5.95	7.90	5.56
90-day Commercial Paper	5.95	6.30	5.82	7.80	5.48

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100	—	7.00	—	—
20-year Treasury	117⅝	—	7.65	7.72	7.69
30-year Treasury	101⅞	— ¾	7.40	7.40	7.44
New 10-year "A" Financial	N/A	N/A	8.20	8.13	8.00
New "AA" Long utility	N/A	N/A	8.88	8.88	8.88
New "AA" Long industrial	N/A	N/A	8.88	8.88	8.88

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX

December 1983=100	Performance index*: Dec 1986†	1-year return (%)	Dec 1985	Dec 1984	Market value (Ybn) Dec 1986
Overall	131.99	10.5	119.46	109.89	154,398
Government Bonds	132.94	10.5	120.32	110.05	74,424
Municipal Bonds	132.37	11.0	119.28	109.53	8,286
Government-Guaranteed Bonds	132.98	11.0	119.77	109.68	29,716
Bank Debentures	128.37	10.0	116.70	108.82	28,775
Corporate Bonds	130.70	9.8	119.05	108.77	11,814
Samurai Bonds	133.03	10.6	120.33	110.96	3,741
Government 10-year††	5.36		6.98	6.46	

* Indices based on monthly reinvestments. Do not coincide with weekly reinvestment indices which appear regularly in this column.
† Preliminary figures based on data up to December 25 1986.
†† Estimated par yields.
Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

	Issued	Price	Chg. on week	Prem.
Fujitsu 3 99	180	137⅞	−6⅝	−2.40
Intec Inc 3 99	50	0		
Kyowa Hakko 6⅝ 97	40	0		
LASMO 9¾ 99	44	88⅞	+0¾	86.39
Murata Mfg 3½ 00	100	195¾	+1	18.15
Ono Pharm 3¾ 98	60	0		
Secom 3¾ 99	80	0		
Sumitomo Corp 2⅞ 99	70	0		

STRAIGHT BONDS	Issued	Price	Chg. on week	Yield
Pacific Gas & El 12 00	75	118	+3⅞	9.63
Penney J C 11⅞ 90	100	104⅞	+0⅞	10.23
Penney J C 12¾ 91	100	112⅞	0	9.31
Postipankki 11½ 90	75	109⅝	+1	7.56
Post-Och Kred 13⅞ 87	50	105⅞	+0⅞	3.63
Privatbanken 12⅞ 95	100	118⅞	−0⅞	9.16
Prudential Ins 12⅝ 87	150	104⅝	−0⅞	8.46
Pru Rlty Secs 0 99	365	36⅞	0	8.70
Pru Rlty Secs 11⅞ 92	386	108⅝	−0⅛	9.63
Pru Rlty Secs 12⅝ 95	545	119⅝	−0⅛	8.67
Quebec Prov 12¾ 94	150	114⅝	−0⅝	9.33
Queensland Gvt 11⅜ 89	100	110⅝	−0⅞	7.28
RBC 11¾ 90	100	108⅝	−0⅞	7.91
Rural Bk Aust 12 91	50	111⅜	+0⅞	8.63
Sanwa Bank 11⅞ 92	150	112⅞	−0⅛	8.79
Sanwa Intl 11½ 92	100	116⅝	0	7.70

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
Wells Fargo ¼ 94	150	100⅞	+0⅛	6⅞
Wells Fargo ¼ 96	50			6⅞
Woolwich Equit ⅛ 95	200	99⅞	+0⅞	11⅞
Yokohama ⅛ 94	100	100⅞	0	6⅞
Yorkshire Int ⅛ 94 £	75	100⅞	+0⅞	11⅞

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	212	+2	2.85
Ajinomoto 5⅞ 96	40	0		
Best Denki 5⅞ 97	75	0		
Canon 7 97	50	0		
CIR Intl 4⅞ 96	85	0		
Daiwa Secs 5½ 96	60	0		
Elektrowatt 5 98	51	168	+7⅞	−4.01
Fuji Bank 2⅞ 00	100	184⅞	+5⅛	3.84

EQUITY WARRANTS	Expiry	Price	Chg. on week	Prem.
Swiss Volksbank A	1/12/88	227½	−7½	4.54
Union Bk Switz A	30/11/89	29	+1	19.38

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅜ 91	16/2/88	96	−15	8.53
Coca Cola 11⅜ 91	28/11/88	130	+1½	8.06
Drt Kraft Fin 10⅝ 96	1/1/96	27⅞	+0⅞	9.78
Denmark 12⅝ 92	31/1/90	173⅝	+0⅝	8.40
Eksportfinas 13⅝ 89	15/9/87	134	−1	7.56
Holland Air 11⅜ 91	10/8/88	58⅞	+5⅞	9.41
Ind Bk Jpn 12⅞ 91	5/10/89	180⅝	+1⅛	8.13
Mitsbishi Fn 12⅝ 91	8/11/89	169⅝	−0⅝	8.23
J P Morgan 11⅜ 90	16/8/87	84½	−2	7.94
Texaco Cap 12⅞ 92	1/9/87	58	−14	11.44
Wlls Frgo A 12⅝ 91	27/12/89	174¾	+5⅛	8.23
Weyehsr C 11⅞ 90	15/11/87	89⅝	+0⅝	8.19

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on December 31.

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NEW ISSUE — *These Bonds having been sold, this announcement appears as a matter of record only.* — DECEMBER, 1986

Republic of Italy

Yen 30,000,000,000

5⅜ per cent. Bonds Due 1992

Issue Price: 100½ per cent.

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Bank of Tokyo International Limited

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Banco di Roma International S.A. — Banque Bruxelles Lambert S.A.

Chemical Bank International Group — Credit Suisse First Boston Limited

Deutsche Bank Capital Markets Limited — Dresdner Bank Aktiengesellschaft

Fineurop — Generale Bank

Istituto Bancario San Paolo di Torino (London Branch) — Mitsubishi Finance International Limited

New Japan Securities Europe Limited — The Nikko Securities Co., (Europe) Ltd.

Prudential-Bache Securities International — Salomon Brothers International Limited

Sanwa International Limited — Shearson Lehman Brothers International

Sige S.p.A. — Sumitomo Finance International

Swiss Bank Corporation International Limited — Union Bank of Switzerland (Securities) Limited

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Philharmonia Orchestra

Patron: HRH The Prince of Wales KG, KT, PC, GCB
Music Director: Giuseppe Sinopoli

'IT SEEMS INEVITABLE THE PHILHARMONIA WILL AGAIN SET THE STANDARD IN LONDON THIS SEASON'

The Times — 25 September 1986

'It was outstandingly well-played by the Philharmonia, with every department alert, rich-toned and eloquent' *(Financial Times, September 1986)*

'In both concerts it was remarkable that after their recent successful American tour together Sinopoli is drawing ever more refined and committed results from the Philharmonia players' *(The Guardian, October 1986)*

'. . . an evening of magnificent accomplishment. The performance of Bruckner's Fourth Symphony was undoubtedly the finest I have heard of that symphony in the concert hall, perhaps the best of any Bruckner symphony' *(Financial Times, November 1986)*

The Philharmonia is London's leading orchestra and, with its Music Director, Giuseppe Sinopoli, is greatly in demand throughout the world. During 1986 the orchestra gave concerts in Austria, France, Germany, Italy, Scandinavia and the USA and was unanimously acclaimed by leading music critics, including the examples below:

PARIS — 'What an orchestra! . . . a brother orchestra to the Berlin Philharmonic and the Concertgebouw Orchestra of Amsterdam' *(May 1986)*.

LUCERNE — 'The excellent Philharmonia Orchestra could not be surpassed . . . not least thanks to the magnificent playing of the best London orchestra' *(August 1986)*

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INTERNATIONAL CAPITAL MARKETS and COMPANIES

William Orme reports on the increasing role of debt-for-equity exchanges

Swaps spur foreign investment in Mexico

EXCHANGES of debt for equity are becoming an important incentive for manufacturers in Mexico to expand export operations, but Mexico's swap rules remain restrictive and the programme will have only small impact on its foreign debt problems, involved bankers and officials concur.

Since Mexico's debt swap programme began in April the Finance Ministry has concluded 55 swap contracts, retiring $650m in public sector debts. It is now awaiting final authorisation from the government's Foreign Investment Commission for 30 more deals cancelling approximately $300m in debts, officials report.

At most, foreign bankers and finance ministry officials estimate debt swaps will retire about $3bn or $4bn of Mexico's government debt, which is slated to grow from about $80bn now to $92bn in a year. "We do not see this in any way as a solution to the debt problem," a finance ministry specialist said. "It is a programme to promote foreign investment, and on that basis it has been quite successful."

Authorities are studying a proposed broadening of the programme to include about $11bn in private sector debts restructured under the government's peso-financed Ficorca plan. But the use of the debt swaps to pre-pay Ficorca debt, which bankers now consider one of the programme's most attractive options, is being phased out, finance ministry officials said.

The impact of debt swaps may be greatest on Mexico's private sector foreign debt, which now totals an estimated $18bn. The creditors of Grupo Industrial Alfa. Mexico's biggest private manufacturing conglomerate, are about to swap $920m in company debts for a 45 per cent equity investment in Alfa, plus $200m in Mexican government debt and $25m.

Other large, heavily indebted Mexican companies are said to be negotiating swap deals. Some bankers contend as much as $5bn in private debts could be retired through equity conversions, though Mexico's strict foreign investment code could block many of the proposed trades.

In general, however, debt swaps are seen by Mexican officials as a temporary mechanism designed to attract foreign investment in a time of acute recession, and only secondarily as a means of reducing the debt. Many expect the programme to become gradually more restructive and, eventually, to be eliminated entirely. "This is not going to be a permanent feature of the Mexican financial system," one official said.

Officials are resisting pressures from creditors to liberalise Mexico's swap rules, which are more restrictive than those in force in Chile and Brazil. In Mexico, the pesos received must be used for approved capital investments—not for import financing, foreign debt payment, or as a cheap source of working capital.

The pesos are paid out directly to the foreign

> **Debt swaps are seen by Mexican officials as a temporary mechanism designed to attract foreign investment in a time of acute recession, and only secondarily as a means of reducing debt. Many expect the programme to become gradually more restrictive and, eventually, to be eliminated entirely**

investor's local suppliers, creditors, and contractors. For the purchase of state enterprises, defined as the highest priority of the plan's nine investment categories, the government will supply pesos at the loan's full face value. In the lowest-ranking category—the prepayment of government-guaranteed private sector debt—Mexico gives the peso equivalent of 75 per cent of the loan's dollar amount.

Most transactions approved so far have fallen under the third category, which gives a 92 per cent rate for projects oriented towards exports or high technology or which will be located in designated industrial development zones. Also included in this category is new foreign equity participation in Mexican-owned private companies.

With Mexican debts traded at about 59 cents on the dollar in the secondary loan market, a typical swap deal now gives the foreign investor the equivalent of $100m in pesos for a real capital outlay of perhaps $70m.

The banks arranging the first large contracts in Mexico collected fat one per cent commissions, but competition for swap deals has grown so intense since that some are waiving fees entirely.

The programme will be continued in 1987, but its rules are being "re-evaluated" by Finance Ministry officials who say it presents problems underestimated by its champions in the financial community. New regulations could be announced in May.

The Mexicans' chief concern is that a massive infusion of discounted pesos through debt exchanges could trigger a new burst of inflation. "We can't open the door wide open," a Cabinet minister said. "Too much of this would create tremendous disorder in monetary affairs. The money supply would in effect be managed by foreign investors instead of the central bank."

Some bankers, however, noting that the volume of swap proposals has not yet reached monetarily risky levels, consider this concern more hypothetical than real. "Mexico hasn't turned down any large deals, and there aren't many more big capital investment projects out there," a US banker said.

Incentives for foreign investors usually draw nationalistic attacks from pro-government unions and Leftist legislators, but the arcane mechanics of the debt swap have so far largely escaped critical notice.

Privately, however, Mexican businessmen object to the decision to restrict the scheme to foreigners, arguing that it gives the multinationals unfair advantages. At least two recent deals, however, were arranged through foreign subsidiaries of Mexican corporations, a loophole potentially open to many local companies. Officials are now considering liberalising the rules excluding Mexican corporations.

Another common complaint is that debt swaps give multinational subsidiaries with pre-existing expansion plans a steep discount in a local currency that is already substantially undervalued. There is no evidence, moreover, officials acknowledge, that the programme is attracting investors not already established in Mexico.

Hong Kong bank fraud charges

BY DAVID DODWELL IN HONG KONG

MR LAWRENCE CHU, president of the Chinese Manufacturers' Association, one of Hong Kong's most powerful business groups, has been charged with conspiracy to defraud the Wing On Bank of sums amounting to about HK$60m (US$7.7m).

Mr Chu appeared on Saturday in Hong Kong's Western magistrates' court. He made no plea, and was remanded on bail of HK$300,000 plus a surety of HK$500,000. He was ordered to surrender his travel documents.

The Wing On Bank, which for many years has been controlled by the Kwok family in Hong Kong, was rescued a year ago by the Hang Seng Bank, which injected HK$176m into the bank in exchange for majority control.

The bank in May reported a net loss for 1985 of HK$187.3m. In accounts that were qualified by the bank's auditors, it revealed provisions for doubtful loans amounting to HK$274.7m.

More than HK$70m of these loans were outstanding to Mr Albert Kwok, the bank's chief manager, who died in April of cancer. However on Saturday he was named as a co-conspirator with Mr Chu.

The Wing On Bank has been under investigation by Hong Kong's Commercial Crime Bureau since August. As a result of these investigations, Mr Chu faces two conspiracy charges — one related to personal borrowings from the bank and the other linked with borrowings by various companies with which he is associated. The offences are alleged to have been committed between December 23 1980 and July 12 1985.

Mr Chu, who is 44, and is chairman of Success Holdings, last year issued writs amounting to HK$25m against Wing On Bank, claiming repayment of debts. He is due to retire as president of the Chinese Manufacturers' Association in a matter of months, at the end of a two-year term of office. The case was adjourned until March.

Canadair hopes to reduce reliance on Challenger

BY ROBERT GIBBENS IN MONTREAL

CANADAIR, the Canadian aerospace group now owned by Bombardier, believes it can sell 25 large corporate jets a year by 1989, but is trying to push other sectors of its business to reduce reliance on the Challenger business jet.

Mr Donald Lowe, president, a veteran of the Pratt & Whitney engine subsidiary of United Technologies, says that assuming reasonably stable economic conditions, Canadair can sell about 20 improved Challenger 601-3A aircraft in 1987—up from 12 in 1986—about 23 in 1988 and 25 in 1989.

But the company's recent alignment with Aerospatiale of France has major implications for the longer term in defence products and possibly in subcontracting sectors.

Canadair and Aerospatiale are bidding jointly for the C$2bn (US$1.45bn) contract for up to 51 aircraft to replace the Canadian armed forces' Sea King helicopters with a special version of the Super Puma, now in use with the US Coast Guard.

Canadair would be prime contractor, and qualifying bids are due by the end of February. The competitors are European Helicopter Industries and Sikorsky Aircraft of the US, in tandem with Canadian groups.

CSX net income down by 5.4% to $418m

BY WILLIAM HALL IN NEW YORK

CSX Corporation, the transport and energy group, has once again signalled the beginning of the annual US corporate results season by announcing a 5.4 per cent dip in its 1986 net income to $418m, or $2.73 a share.

The Richmond-based transport group, which announced its results just two days after the close of its 1986 fiscal year, benefited from $101m of extra other income in the 12-month period, but this was more than offset by a $51m increase in its interest charges, a $62m increase in its tax bill and a lacklustre performance of its underlying business.

In its final quarter the group earned $132m, or 86 cents a share, compared with $120m, or 78 cents, in the final quarter of last year before taking account of the previous year's $954m pre-tax charge to cover the restructuring of its businesses.

The group's 1986 revenues of $6.3bn were 13 per cent down on 1985 and 10 per cent down in the final quarter which does not augur well for the other US corporations which will shortly be reporting their results from the US industrial heartland.

CSX, which acquired the Sea-Land container shipping group last year, said that its results "principally reflect continued weakness in rail merchandise traffic which resulted from the lacklustre performance of the rail-served industrial and agricultural segments of the economy".

It reported that general commodity rail traffic fell by 2 per cent in 1986. Domestic coal traffic rose 6 per cent to 144.7m tons, but export coal traffic fell 9 per cent to 23.2m tons.

CSX said that its American Commercial Lines river barge operations had an excellent year with operating income rising 89 per cent due to a 10 per cent increase in tonnage carried.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Splitz Ltd. ‡	300	1991	4¾	8	72¼	Morgan Stanley	7.982
Splitz Ltd. †‡	300	1991	4¾	(c)	38½	Morgan Stanley	–
Shearson Lehman CMO (d)†‡	112.48	2018	8½	⅝	100	Shearson Lehman Bros.	–
CANADIAN DOLLARS							
Denmark ‡	150	1992	5	9⅛	101½	LTCB Int.	8.742
D-MARKS							
Deutsche Bank Fin. ‡	500	1992	5	5½	101	Deutsche Bank	5.267
Deutsche Bank Fin. ‡	300	1995	8	6¼	100¾	Deutsche Bank	6.129
STERLING							
Deutsche Bank Fin. ‡	100	1992	5	10½	101⅝	Warburg Securities	10.071
[illegible] ‡	50	1992	5	10⅝	101⅞	Warburg Securities	10.266
SWISS FRANCS							
Bio Cap. Holding Co. (a)§	100	2002	–	(5⅝)	100	Bqe Gutzwiller, K. B.	*
BELGIAN FRANCS							
Euratom ‡	[illegible]	1997	10	7⅝	99	Generale Bank	7.900
YEN							
Standard Oil (e)§‡	5bn	1994	7	7⅛	101⅞	Nomura Secs.	–
Banca Naz. del Lavoro §‡	5bn	1997	10	(b)	101½	Nomura Int.	–
Morgan Guaranty Trust §‡	15bn	1992	5	7	101½	Nomura Int.	6.636

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate note. † With equity warrants. ϕ With bond warrants. § Currency-linked. (a) Collateralised convertible. (b) 4.7% first 5 years, 7½% thereafter. (c) ½ under 3m Libid, first coupon fixed at 8⅝% until March 1987. Collateralised with UK's $4bn FRN. (d) ⅝ over 3m Libor; linked to FNLMC. (e) Launched in Japan. Note: Yields are calculated on AIBD basis.

EUROBOND ISSUES BY CURRENCY

1986 Rank	Currency	Total raised ($bn)	No. of issues	1985 Rank	Total raised ($bn)	No. of issues
1	US$	114.309	827	(1)	94.161	881
2	Yen	18.606	160	(3)	7.019	80
3	DM	17.415	170	(2)	11.190	165
4	Sterling	10.546	78	(5)	5.493	60
5	Ecu	6.870	81	(4)	5.796	127
6	C$	5.227	67	(7)	2.863	55
7	FFr	3.500	46	(8)	1.111	21
8	A$	3.077	91	(6)	3.134	92
9	Fl	1.372	23	(10)	0.759	27
10	DKr	1.160	27	(—)	—	—

Source: IDD Information Services

Helaba Luxembourg
Hessische Landesbank
International S.A.

A$50,000,000

12¾% Notes Due 1989

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Hessische Landesbank-Girozentrale-

Morgan Guaranty Ltd
Banque Générale du Luxembourg S.A.
Hessische Landesbank-Girozentrale-
Orion Royal Bank Limited
Banque Bruxelles Lambert S.A.
Banque Internationale à Luxembourg S.A.
Banque Paribas Capital Markets Limited
Bayerische Landesbank Girozentrale
Bayerische Vereinsbank Aktiengesellschaft
Berliner Handels- und Frankfurter Bank
Commonwealth Bank of Australia
Credit Suisse First Boston Limited
Deutsche Girozentrale - Deutsche Kommunalbank -
EBC Amro Bank Limited
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Hambros Bank Limited
Kredietbank International Group
Landesbank Rheinland-Pfalz Girozentrale
Landesbank Schleswig-Holstein Girozentrale
Norddeutsche Landesbank Girozentrale
Westpac Banking Corporation

15th May, 1986
All of these securities have been sold. This announcement appears as a matter of record only.

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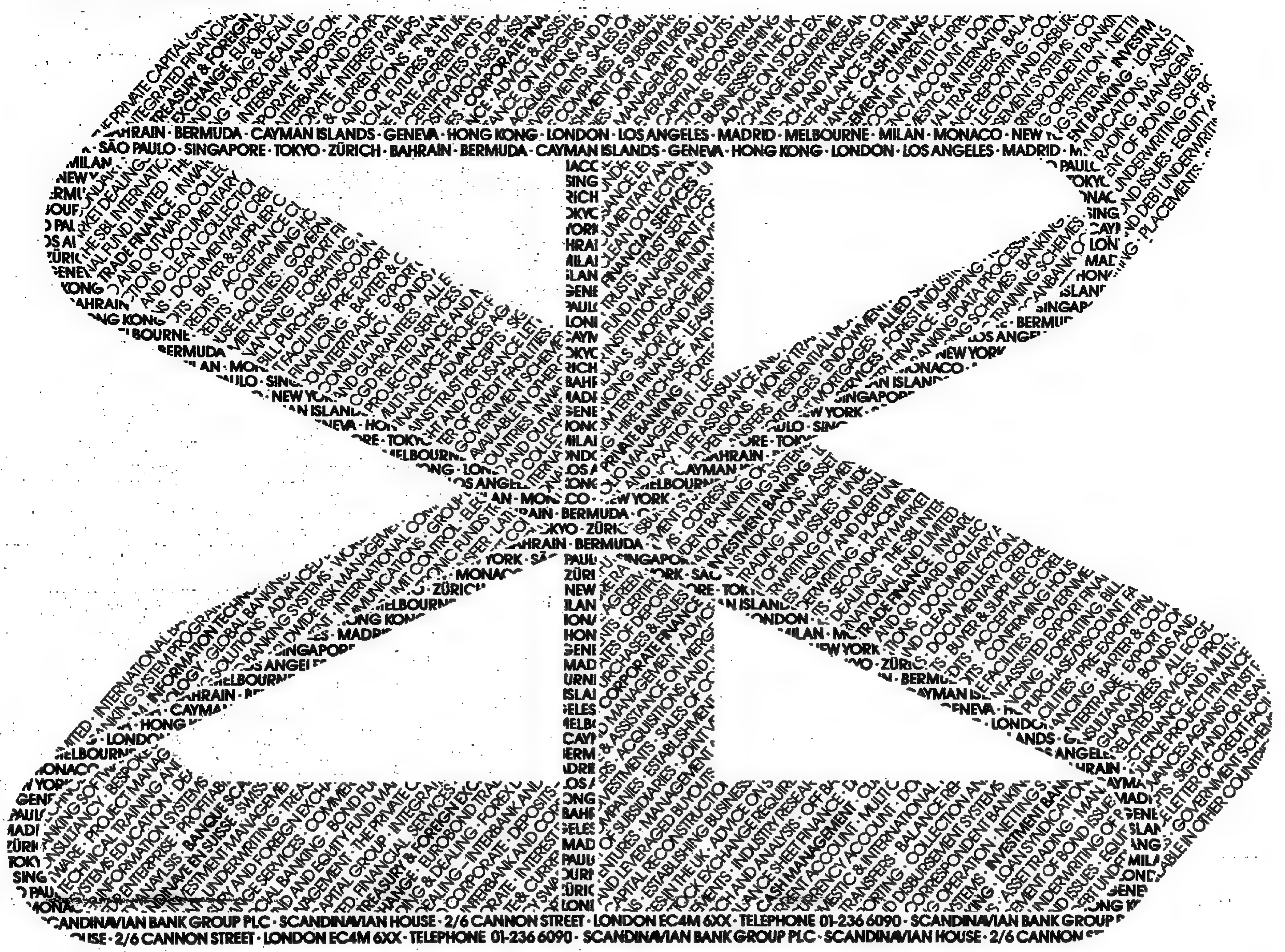
Hessische Landesbank - Girozentrale -
(Incorporated as a public law corporation in the Federal Republic of Germany)

U.S. $100,000,000

8% Notes due 1996

Morgan Guaranty Ltd
Helaba Luxembourg Hessische Landesbank International S.A.
Bankers Trust International Limited
Morgan Stanley International
Salomon Brothers International Limited
Sparekassen SDS
ABC Union Bank of Norway
Banque Bruxelles Lambert S.A.
Banque Internationale à Luxembourg S.A.
Banque Nationale de Paris
Chase Investment Bank
Crédit Lyonnais
DG Bank International Luxembourg
Fuji International Finance Limited
Genossenschaftliche Zentralbank AG Vienna
Manufacturers Hanover Limited
Mitsui Finance International Limited
The Nikko Securities Co., (Europe) Ltd.
Nippon Credit International Limited
Prudential-Bache Securities International
Sumitomo Finance International
Takugin International Bank (Europe) S.A.
Tokai International Limited
Union Bank of Switzerland (Securities) Limited
Vereins- und Westbank Internationale Société Anonyme
Wood Gundy Inc.
Yamaichi International (Europe) Limited
Yasuda Trust Europe Limited

16th September, 1986
All of these securities have been sold. This announcement appears as a matter of record only.



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CORRECTED NOTICE

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Registration Number 01/00826/06
(Incorporated in the Republic of South Africa)
A member of the Barlow Rand Group

PAYMENT OF COUPON NO. 118

With reference to the Company's dividend notice advertised in the press on 3rd December 1986, the following information is published for the guidance of holders of share warrants to bearer. The dividend was declared in South African currency and in accordance with the conditions of payment of this dividend, payment from the offices of the Secretaries of the Company in the United Kingdom will be made in United Kingdom currency at the telegraphic transfer rate of exchange between Johannesburg and London which ruled on 29th December 1986.

Payments will be made against coupon no. 118 on or after 31st January 1987 in UK currency at the Securities Department of Hill Samuel & Co. Limited, 45 Beech Street, London EC2P 2LX, or in French currency at Credit Lyonnais, 19 boulevard des Italiens, 75002 Paris.

Coupons must be left for at least four days for examination and may be presented any weekday (Saturdays excepted) between the hours of 10.00 a.m. and 3.00 p.m.

Republic of South Africa non-resident shareholders' tax will be deducted at the rate of 15 per cent. United Kingdom income tax will also be deducted from coupons presented for payment at the Securities Department of Hill Samuel & Co. Limited, unless coupons are accompanied by Inland Revenue non-residence declaration forms. Where such deductions are made the net amount of the dividend is as follows:—

	South African Currency per Share	UK Currency Equivalent per Share
	Cents	Pence
Amount of dividend declared	100.00	31.33170
Less: South African non-resident Shareholders' tax at 15%	15.00	4.69975
	85.00	26.63195
Less: UK Income Tax at 14%		4.38644
		22.24551

Secretaries of the Company in the United Kingdom
Charter Consolidated Services Limited
40 Holborn Viaduct
London EC1P 1AJ
1st January 1987

NOTE: The Company has been advised by the Commissioners of Inland Revenue to state:

Under the double taxation agreement between the United Kingdom and the Republic of South Africa, the South African non-resident shareholders' tax applicable to the dividend is allowable as a credit against the United Kingdom tax payable in respect of the dividend. The deduction of tax at the reduced rate of 14% instead of at the basic rate of 29% represents an allowance of credit at the rate of 15%.

This notice appeared incorrectly in the Financial Times on Friday, 2nd January 1987.

I.G. INDEX
FT for January
1,317-1,322 (−0.8)
Tel: 01-828 5699

David Goodhart on implications behind GKN's withdrawal from City lunches

Giving brokers the cold shoulder

THE announcement from GKN that it will not attend brokers lunches — for at least one year —has been greeted with dismay in some parts of the City.

It is seen by many fund managers and brokers as the thin end of a dangerous wedge which could mark the end of several years of improvement in the quality and quantity of the information flowing from major companies to City investors.

The brokers lunch is an old City institution, but it has recently come to be dominated by fund managers. Typically, a lunch will be organised by, say, the leading engineering analyst of a firm of stockbrokers which will invite the chairman and finance director of a major company to meet a couple of junior analysts and a salesman or two from his own firm and six to eight fund managers.

It is the erratic quality—or at least preparedness—of some of the analysts which GKN claims is its prime motive for withdrawal. The company complains that the lunches are of mixed value and when some analysts turn up knowing virtually nothing about the business it can be a waste of a precious three hours (including travelling time).

GKN has not cited the danger that its fellow-lunchers may be in receipt of insider-information as a reason for its decision but the group has received dozens of inquiries from other industrial companies which may be contemplating a similar move and the panic about insider trading no doubt lies behind some of those inquiries.

Several fund managers certainly believe so. Mr Charles Nunneley, chairman of Robert Fleming Investment Management, is representative: "The danger of providing insider information has long been used as an excuse by industry not to tell the City more and the current attention on insider trading could well make matters worse."

But is it an excuse or is there a genuine problem? It is certainly an area that the new CBI City-industry relations task force might profitably examine. It would, after all, be unfortunate if the most widely canvassed solution to encouraging longer-term relations between institutional shareholders and companies—namely better communications between the two—was to fall foul of the crack down on insider trading.

Sir Trevor Holdsworth, chairman of GKN

The truth of the matter seem to be that GKN is trying to reduce its exposure to the sometimes tiresome analyst middleman and direct more of its communication effort straight at the fund managers. As fund managers tend to predominate at brokers lunches the withdrawal appears to be a strange means to that end.

If there is a problem it has certainly not prevented a sustained improvement in the information flow over the past five years.

Most fund managers complain that the improvement has been uneven and that they are still not told enough about long-term strategy, but will admit that there has been a move in the right direction.

There are probably four main reasons for the improvement. First, and most important, the takeover boom has forced companies to pay far more attention to their share price—and thus the City perception of them—in order either to use their paper for bids or avoid takeover. Of course some companies remain relatively uninterested in selling themselves; GUS is one famous example, but its shares are under-rated as a result, J. Sainsbury is another, but it has little fear of takeover.

Second, there has been a boom in City public relations businesses which have had a vested interest in both pointing up and subsequently trying to resolve the City-industry communications problem. Partly as a result of their efforts many more companies now have a board member with responsibility for (among other things) shareholder relations.

Thirdly, a large number of companies have changed out of all recognition in the past five years but it takes time and public relations effort to force perceptions to catch up with the changed reality. GKN itself, for example, now has only 40 per cent of sales in the UK but is still thought of as a thoroughly British metal basher.

Finally, the quality of brokers analysts' work has improved which is increasingly—in effect—forcing companies to reveal things they might have preferred to keep to themselves. One example of this is that analysts are starting to catch up with some of the profit-flattening techniques associated with merger and acquisition accounting.

So is GKN simply miffed at having to argue its case more carefully before this, often youthful, jury of brokers analysts? Mr David Lees, the GKN finance director, insists that its decision does not represent a withdrawal from the City, just a different presentational form.

Instead of lunches, GKN will be holding two major presentations a year (at the interims and finals) for the 20-plus analysts who follow them. To date, it has only done one presentation a year at the finals stage.

The company has also decided to stop organising analyst tours—at least for a while—and is seeking to centralise the information flow by trying to stop analysts, and others, talking to managing directors of individual companies.

GKN has spent a lot of time and trouble trying to improve its City relations over the past three years and Mr Lees reckons he spends double the time on investor relations now, compared with the early 1980s. So it would be a surprising volte face if these new guidelines had been designed to simply stop the flow of information.

The truth of the matter seems to be that GKN is trying to reduce its exposure to the sometimes tiresome analyst middleman and direct more of its communication effort straight at the fund managers.

As fund managers tend to predominate at brokers lunches the withdrawal appears to be a strange means to that end. But Mr Lees says that separate meetings with fund managers will continue and indeed he hopes that he will have more direct contact with some of the senior managers in the major institutions.

Some institutions will clearly welcome this, particularly those such as the Norwich Union which have themselves withdrawn from brokers lunches and place more emphasis on company visits.

However, others clearly find the relatively informal context of a brokers lunch a useful place to gain first hand knowledge of company managements. Aside from the high-handedness towards the City they sense in GKN's decision (shades of GEC) these managers also point to the fact that a company of GKN's size will probably have over 150 institutional investors — albeit perhaps only 25 large ones — and it may be impractical to meet them all individually.

Although several other company boards might applaud GKN's move it seems unlikely many will follow at present—for fear of appearing to clam up. But still the focus on insider information ensure that those remaining at the lunch table will have to watch their tongues more carefully?

The general principle laid down by the Stock Exchange on what a company can and cannot say is simple enough: Any price sensitive information should be put on general release through the Exchange's Company Announcements Office.

Or to be more precise as section five, chapter two, of the "Yellow Book" spells out: "Information should not be divulged outside the company and its advisers in such a way as to place in a privileged dealing position any person or class or category of persons. Information should not be released in such a way that Stock Exchange transactions may be entered into at prices which do not reflect the latest available information." (The Company Securities—Insider Dealing Act of 1985 has a similar definition and makes it a criminal offence to consciously exploit such confidential information).

This inevitably leaves large grey areas. If a company must notify "any major new development in its sphere of activity" it begs the question what is a major new development? Are the decision to move into a new market, the winning of an order, the decision to cease production at one factory, major new developments? Clearly in some circumstances they could all be price sensitive and in others not at all.

The response that companies should stick to long-term strategy — which is after all what many institutions want to hear more about — is only part of the answer. For that too can surely be price sensitive. If an influential analyst is impressed by some discussion of a company's medium- to long-term strategy he may immediately urge all his clients to buy and send the price up.

One difficulty is that most brokers use lunches to seek a new market-moving angle on a company or some tit-bit of information to place them ahead of the pack. When those brokers meet the many companies which try to keep general disclosure to a minimum, privileged information can be teased out with every course.

If communications between the City and industry are not to be irreparably damaged it is probably impossible to completely stamp out some straying into price sensitive areas. But to minimise the danger one suggestion is that the Stock Exchange should elaborate in far more detail what is deemed price sensitive —ie profit forecasts, takeover plans—and what is not—ie new product or marketing ideas.

Others argue it would be preferable to persuade UK companies to follow best practice in the US and put out information far quicker. That would at least cut the period in which inside information can thrive. It may also help if general, strategic, business plans were released more often —particularly before brokers lunches.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Asda-MFI	Jan 8	Interim 1.25
*Associated Newspapers	Jan 8	Final 11.5
*Blue Arrow	Jan 28	Final 0.8
Davy Corpn	Jan 16	Interim 1.1
*Dixons	Jan 14	Interim 2.31
*Dowty	Jan 21	Interim 2.3
Fitch Lovell	Jan 23	Interim 3.5
London Scottish Finance	Jan 13	Final 2.1
Lonrho	Jan 30	Final 7.0
Magnet and Southerns	Jan 15	Interim 2.0
Mercantile House	Jan 28	Interim 4.25
*Racal	Jan 27	Interim due
*Ratners	Jan 12	Interim 0.75
Smith (W. H.)	Jan 28	Interim 2.0
*TSB	Jan 29	Final due
*Trusthouse Forte	Jan 15	Final 4.18
*Wardle Storeys	Jan 8	Final 3.3
Zetters	Jan 29	Interim 1.25

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interim: Carclo Engineering.

FUTURE DATES

Interims—

Gnome Photographic Products	Jan 9
Stead and Simpson	Jan 14
TR City of London Trust	Jan 7
Wassall (J. W.)	Jan 7
Westpool Investment Trust	Jan 13

Finals—

Barr (A. G.)	Jan 12
Brooke Tool Engineering	Jan 19
Gestetner	Jan 22
M and G Dual Trust	Jan 14
Television South	Jan 13
Trusthouse Forte	Jan 15

Public Works Loan Board rates

Effective December 31

Years	Quota loans repaid by EIP† %	Quota loans repaid A‡ %	Quota loans repaid at maturity§ %	Non-quota loans A* repaid by EIP† %	Non-quota loans A* repaid A‡ %	Non-quota loans A* repaid at maturity§ %
1	—	—	11½	—	—	11⅞
Over 1 up to 2	11½	11½	11	12¼	12¼	11⅞
Over 2 up to 3	11¼	11¼	11	12⅛	12⅛	11¾
Over 3 up to 4	11	11	11	12	12	11¾
Over 4 up to 5	11	11	10⅞	12	12	11⅝
Over 5 up to 6	11	11	11	11⅞	11⅞	11⅝
Over 6 up to 7	11	11	11	11⅞	11⅞	11½
Over 7 up to 8	11	11	11	11⅝	11⅝	11½
Over 8 up to 9	11	11	10⅞	11⅝	11⅝	11⅜
Over 9 up to 10	10⅞	11	10⅞	11⅝	11⅝	11⅜
Over 10 up to 15	11	10⅞	10¾	11½	11½	11⅛
Over 15 up to 25	10¾	10⅝	10⅝	11¼	11¼	11
Over 25	10½	10½	10⅜	11	11	10⅞

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

GRANVILLE

SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E
4,602	Ass. Brit. Ind. Ordinary	133xd	+1	7.3	5.5	8.1
—	Ass. Brit. Ind. CULS	145xd	—	10.0	6.9	—
875	Armitage and Rhodes	35	—	4.2	12.0	4.9
5,630	BBB Design Group (USM)	68	+1	1.4	2.1	16.2
69,116	Bardon Hill	215xd	—	4.6	2.1	24.4
5,259	Bray Technologies	95	—	4.3	4.5	11.3
455	CCL Group Ordinary	130	−3	2.9	2.2	9.2
1,238	CCL Group 11pc Conv. Pf.	99xd	—	15.7	15.9	—
15,077	Carborundum Ordinary	268	+2	9.1	3.4	12.9
637	Carborundum 7.5pc Pf.	91xd	+1	10.7	11.8	—
3,176	Frederick Parker Group	22s	—	—	—	—
1,679	George Blair	91	—	3.8	4.2	2.3
3,940	Ind. Precision Castings	97	—	6.7	6.9	8.7
11,382	Isis Group	143	−4	18.3	12.8	8.2
6,457	Jackson Group	124xd	−1	6.1	4.9	6.4
45,947	James Burrough	328xd	−29	17.0	5.2	9.2
3,117	James Burrough 9pc Pf.	89	−2	12.9	14.5	—
86,143	Multihouse NV (AmstSE)	720	−20	—	—	37.7
8,119	Record Ridgway Ordinary	363	—	—	—	6.3
2,341	Record Ridgway 10pc Pf.	83xd	+1	14.1	17.0	—
696	Robert Jenkins	68	+2	—	—	3.9
1,660	Scruttons	42xd	+1	—	—	—
3,482	Torday and Carlisle	141	+2	5.7	4.0	8.3
1,489	Travian Holdings	324	−2	7.9	2.4	6.7
15,600	Unilock Holdings (SE)	79	—	2.8	3.5	14.4
29,814	Walter Alexander	115	+5	5.0	4.3	11.0
4,574	W. S. Yeates	196	—	17.4	8.9	19.6
4,071	West Yorks. Ind. Hosp. (USM)	95	—	5.6	5.8	13.7

s=Suspended.

Granville & Co. Limited
8 Lovat Lane, London EC3R 8BP
Telephone 01-621 1212
Member of FIMBRA

Granville Davies Coleman Limited
27 Lovat Lane, London EC3R 8DT
Telephone 01-621 1212
Member of the Stock Exchange

This notice appears as a matter of record only, all shares being sold.

New issue

December 1986

VIANINI LAVORI S.p.A.

Lit 107,100,000,000
Offer For Sale
of
17,000,000 Ordinary Shares
Issue Price Lit 6,300 per share

Banco di Roma — Istituto Bancario S. Paolo di Torino
Monte dei Paschi di Siena — Credito Italiano
Banco di Santo Spirito — Banco di Sicilia
Cassa Risparmio di Torino — Banca Nazionale dell'Agricoltura
Banca Commerciale Italiana — Banco di Napoli
Cassa Risparmio di Roma — Nuovo Banco Ambrosiano
Banca Nazionale del lavoro — Banca Provinciale Lombarda
Banca Popolare di Milano — Banca Toscana
Banco Lariano — Istituto Bancario Italiano
Sige Spa — Interbanca Spa
Efibanca Spa — Euromobiliare Spa
Sifa Spa — COUNTY SECURITIES
Citicorp Capital Markets Spa — Morgan Guaranty Limited

& The NatWest Investment Bank Group

Hodgson buys another Cardiff funeral director

BY CLAY HARRIS

Hodgson Holdings has bought its third Cardiff funeral director in less than a week, paying £600,000 for D. J. Evans, Forse and Co.

The latest acquisition, announced yesterday, is expected to add another 800 funerals to take the Birmingham-based group's annual total to 8,300. Hodgson has now bought eight funeral directors since coming to the USM in June 1986.

Yesterday's cash deal, plus the purchase last week of Augustine J. Stone and William Ham, will put Hodgson neck-and-neck with privately-owned Summers for leadership in the Cardiff market, according to Mr Graham Hodson, managing director.

Hodgson shares added 1p to 171p on Friday, just over double the flotation price, to value the company at £15.1m.

FT Share Information

The following securities have been added to the Share Information Service.

Glentree Estates (Section: Property). Gordon Russell (Industrials). Lloyds Chemists (Drapery & Stores). Plumb Holdings (Industrials). Ryman Group (Drapery & Stores). Stratton Investment Trust (Investment Trusts). Virgin Group (Leisure). Ward Group (Buildings). Weeltons Betterware (Drapery & Stores).

Management buyout at Smiths offshoot

Mecro distributor of industrial products, has been acquired from its parent company Smiths Industries by its management at a cost of approximately £4.5m. Finance for the acquisition has been provided by Barclays Development Capital and Barclays Bank.

Mecro distributes bearings, power transmission components, seals and other specialised industrial products from a network of 38 branches throughout the UK. Sales for its last financial year exceeded £11m.

£200,000,000
Floating Rate Notes 1993

ABBEY NATIONAL BUILDING SOCIETY
(Incorporated in England under the Building Societies Act 1874)

In accordance with the provisions of the Notes, notice is hereby given that for the three months interest period from January 2, 1987 to April 2, 1987 the Notes will carry an interest rate of 11.2875% per annum. The interest payable on the relevant interest payment date, April 2, 1987, will be £278.32 per £10,000 principal amount of Notes.

January 5, 1987
The Chase Manhattan Bank, N.A.,
London, Agent Bank

CHASE

Standard Chartered

Standard Chartered PLC
(Incorporated with limited liability in England)

US$400,000,000 Undated Primary Capital Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that the next Interest Determination Period will run from 5th January, 1987 to 6th July, 1987. This Interest Determination Period is also a Residual Period (as defined) and the Notes will carry interest at the rate of 6⅜% per cent. per annum.

Interest payable on 6th July, 1987 will amount to US$322.29 per US$10,000 Note and US$3222.92 per US$100,000 Note.

Standard Chartered Merchant Bank Limited
Agent Bank

Standard Chartered

Standard Chartered PLC
(Incorporated with limited liability in England)

US$300,000,000 Undated Primary Capital Floating Rate Notes (Series 4) (of which US$200,000,000 has been issued as the Initial Tranche)

In accordance with the provisions of the Notes, notice is hereby given that for the six months period, (182 days), from 5th January, 1987 to 6th July, 1987, the Notes will carry interest at the rate of 6.4625 per cent. per annum.

Interest payable on 6th July, 1987 will amount to US$326.72 per US$10,000 Note and US$3,267.15 per US$100,000 Note.

Standard Chartered Merchant Bank Limited
Agent Bank

CENTRAL BANK OF NIGERIA FLOATING RATE NOTES DUE 1986/90 TO BE ISSUED IN RESPECT OF OUTSTANDING TRADE DEBT

In accordance with the Terms and Conditions of the Notes, notice is hereby given that in respect of the Interest Period from January 5, 1987, to April 5, 1987, the Rate of Interest has been determined at 7⅛% per annum.

London, January 5, 1987
THE CHASE MANHATTAN BANK, N.A.
FISCAL AGENT
CHASE

FINANCIAL TIMES STOCK INDICES

	Jan. 2	Dec. 31	Dec. 30	Dec. 29	Dec. 24	Dec. 23	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.76	83.62	83.52	83.25	83.14	82.96	94.51	80.39	127.4	49.18
Fixed Interest	90.23	89.72	89.60	89.53	89.77	89.72	97.68	86.55	150.4	50.53
Ordinary	1320.2	1313.9	1308.6	1307.1	1301.2	1294.7	1425.9	1094.3	1425.9	49.4
Gold Mines	304.1	288.9	298.2	299.0	299.6	308.9	357.8	185.7	734.7	43.5
FT-Act All Share	836.29	835.48	832.80	831.99	829.11	827.01	835.48	664.42	835.48	61.92
FT-SE 100	1681.1	1679.0	1673.1	1671.6	1665.1	1660.9	1717.6	1370.1	1717.6	986.9

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

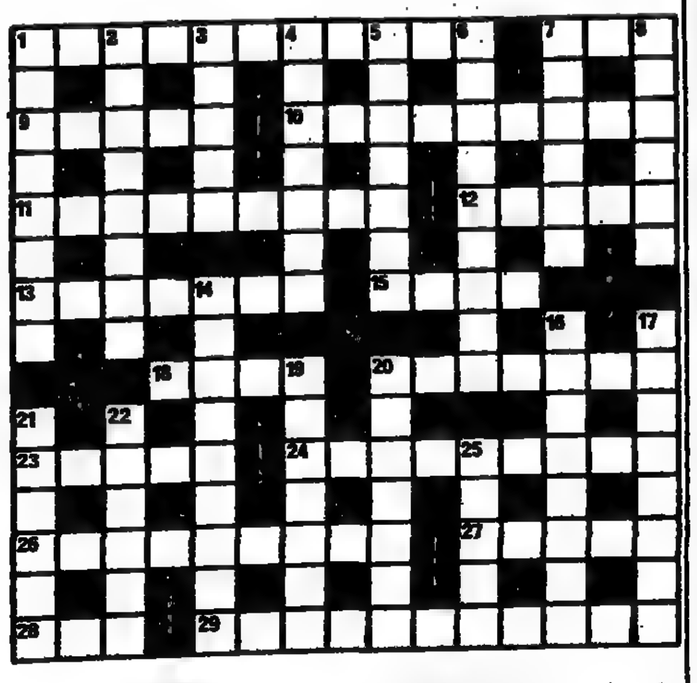
	Bid Price	Offer Price	+ or –	Yield Gross
Abbey Unit Tst. Mngrs. (a)				
80 Holdenhurst Rd, Bournemouth				0345 717373
High Income				
American Income	45.5	48.4	–0.7	5.42
Gilts & Fixed Int.	107.3	113.5	+0.7	10.57
High Inc Equity	97.0	103.1	+0.2	5.04
Worldwide Bond	198.4	211.0	–1.0	4.40
Capital Growth				
American Growth	145.1	154.3	–2.2	0.91
Asian Pacific	60.4	64.2	–0.7	1.76
Assets & Emrgs. Tst.	109.7	116.7	–0.1	2.45
Capital Reserve	66.0	66.5	+0.2	1.52
Commodity & Engy	97.1	103.2	+0.6	1.30
European Capital	101.0	107.4	+0.1	1.18
General	139.3	148.1	–0.1	2.37
Japan	76.9	81.8	–0.2	0.0
Mastertrust	66.6	70.8	–0.2	2.32
UK Growth Acc. Units	152.6	162.3	+0.3	0.97
UK Growth Dist	105.5	112.2	+0.2	1.40
U.S. Emerging Co's	50.0	53.1	–0.5	0.09
Equities Prog.	208.8	222.1	–0.1	3.25
Allied Dunbar Unit Trusts PLC (a)(g)				
Allied Dunbar Centre, Swindon, SN1 1EL. (0793) 28291.				Dealing (0793) 610366
Balanced Trusts				
Growth & Inc Trust	135.7	143.8	+0.1	3.15
Capital Trust	226.3	240.1	+0.4	2.88
Balanced Trust	561.0	592.7	+0.1	3.60
Accum Trust	558.7	592.7	–0.1	3.21
Income Trusts				
American Income Tst.	31.9	34.0	–0.5	4.30
High Income Trust	257.0	272.4	+0.4	4.81
Equity Income Trust	142.6	151.2	+0.3	5.09
High Yield Trust	148.1	157.0	+0.5	5.30
Govt Secs Trust	27.9	29.0	+0.3	9.95
International Trusts				
Amer Spec Sits Tst	66.0	69.5	–1.0	1.49
European Growth Tst.	23.9	25.4	—	0.80
International Tst.	91.4	97.4	–0.8	0.83
Japan Tst	122.0	129.9	–0.3	0.01

	Bid Price	Offer Price	+ or –	Yield Gross
Baring Fund Managers Ltd				
PO Box 156, Beckenham, Kent BR3 4XQ				01-658 9002
Australia Tst.	77.4	84.6	+0.6	0.3
Eastern Tst.	73.4	78.5	–0.5	0.3
Equity Income Tst.	58.5	63.4	+0.7	5.8
Europe Tst.	136.4	147.4	+0.5	1.0
Global Growth	57.2	60.8	–0.1	2.2
Growth & Inc Tst.	63.7	69.3	—	3.0
Growth & Inc Tst Accum.	97.4	105.9	–0.1	3.0
Japan Special Tst.	111.5	119.2	–0.1	0.3
Japan Sunrise Tst	93.5	100.0	–0.1	0.3
First Europe Tst.	119.4	127.0	–0.2	0.8
First Japan Tst.	85.9	97.5	+0.1	1.1
First Nrth America Tst.	47.5	52.4	–0.7	1.1
First Smaller Cos Tst.	68.4	72.7	+0.3	2.7
Barrington Mgmt Co Ltd (z)				
10 Fenchurch Street London EC3				01-623 8000
American Smaller Co.	60.2	63.9	–0.2	1.05
(Accum Units)	61.5	64.9	–0.2	1.05
European Fund	102.3	107.9	+0.4	1.22
(Accum. Units)	126.1	133.0	+0.4	1.22
Fund of Inv Ts.	28.0	29.5	+0.5	2.22
(Accum. Units)	29.6	31.2	+0.7	2.22
General Fund	169.6	178.9	+0.2	2.89
(Accum. Units)	230.1	243.8	+0.3	2.89
Gilt Yield	108.3	111.6	+1.1	10.37
(Accum Units)	178.5	183.9	+1.7	10.37
High Yield	94.1	99.3	+0.6	5.08
(Accum Units)	191.1	201.6	+0.8	5.08
Int Recovery Fund	109.8	112.4	+0.2	1.99
(Accum. Units)	111.8	117.9	+0.2	1.99
Japan Fund	240.4	253.6	+2.2	0.24
(Accum. Units)	242.1	255.4	+2.2	0.24
Japanese Special	111.0	117.1	+1.2	0.00
(Accum. Units)	111.4	117.5	+1.2	0.00
North American	48.1	50.7	–0.4	0.79
(Accum. Units)	54.0	57.1	–0.4	0.79
Pacific Fund	140.8	148.5	+0.3	0.58
(Accum Units)	158.8	167.5	+0.4	0.58
Planned Investment	135.2	142.9	–0.3	4.10
Smaller Companies	88.5	93.4	—	0.98
(Accum Units)	105.7	111.5	+0.1	0.98
Smallers Companies 'A'	88.5	93.4	—	0.98
UK Equity Growth	27.7	29.2	—	1.40
(Accum Units)	45.7	48.2	—	1.40
Worldwide Tech	42.5	44.6	–0.1	1.62
(Accum Units)	42.7	45.0	–0.1	1.62
KB High Yield	134.3	141.7	+0.8	5.48
(Accum Units)	226.6	239.3	+1.4	5.48

INSURANCES

FT CROSSWORD PUZZLE NO. 6,218

HIGHLANDER



ACROSS

1 He knew Yorick could be serious before Australian (5-6)
7 Opponent of going round starting enquiries (3)
9 Tucks into shoots (5)
10 Send U-boat new order: it's going to China (9)
11 Special combination of cardinal and landlord (3-6)
12 Left organ to introduce Henry to composer (5)
13 Cancel out in fully amended version (7)
15 Staple crop (4)
18 Sweeps round the crack (4)
20 Satisfied with what's inside (7)
23 Our group was taken in by her carver (5)
24 Gunners take pride (if so ordered) in producing quick shooting (5, 4)
26 A put-up job by the Indians to beat the French (5, 4)
27 Forced 007 round the bend (5)
28 Mixed-up type, but sweet (3)
29 Not fully qualified but finished off houses first (4-7)

DOWN

1 A grenade will scatter the swine according to Matthew (8)
2 Where to go for warm beer in Yorkshire (8)
3 Make certain no runs result (5)
4 Clumsily put in—see about exercise (7)
5 Under anaesthetic, one hears ingenious device is connected to stomach (7)
6 No beer? I'll organise a forceful protest (9)
7 Engaged a castle, it's said (6)
8 Pole has broken, understand? (6)
14 It's a donkey in there; not a pig, nor a mustang (9)
16 Left over right, then use dial—that's complicated (8)
17 Was present given an escort? (8)
19 Present for every appearance (7)
20 Company's flanks rush to secure wood (7)
21 Quiet drink outside the shed (4, 2)
22 Cover was wrong on most of them (6)
25 Name given to first class state (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUST & INSURANCES

British National Life Assurance Co Ltd
Perrymount Road, Haywards Heath 0444 414111

Managed Fd.	208.0	219.0	-0.5	—
Property Fd	173.4	182.5	+0.8	—
Equity Fd	249.5	262.6	+4.4	—
New Tech Fd	151.2	159.1	-2.2	—
American Fund	104.8	110.3	-3.8	—
Intl. Fd	273.7	288.1	-1.5	—
Fixed Int. Fd	138.5	145.8	+3.5	—
Deposit Fd	123.0	129.5	+0.9	—
Managed Series 2	207.6	218.6	-0.5	—
Intnl Series 2	273.9	287.7	-1.5	—
Equity Series 2	249.1	262.1	+6.5	—
Managed Pens. Acc	265.1	279.0	-1.5	—
Managed Pens. Cap	206.1	216.9	-1.4	—
Property Pens. Acc	206.1	217.0	+1.0	—
Equity Pens. Acc	308.6	324.8	+9.7	—
New Tech Pens. Acc	172.6	181.7	-3.7	—
Intl. Pens. Acc	376.1	395.9	-3.7	—
Fixed Int. Pens. Acc	158.5	166.8	+4.2	—
Stoney Mtn SMF Life	135.2	142.3	+0.3	—
Cabbots SMF Life	139.9	146.7	-0.5	—
Orient Fund	99.5	104.8	+0.6	—
European Fund	95.2	100.2	-0.4	—

Crown Financial—Contd.
Group Pension Funds(z)

American	113.5	117.4	—	—
Equity	410.6	425.4	—	—
European	268.6	278.9	—	—
Fixed Interest	229.4	237.7	—	—
International	163.4	169.3	—	—
Investment Trust	130.1	135.5	—	—
Japanese	241.2	248.9	—	—
Mixed	387.0	401.0	—	—
Money	227.2	235.4	—	—
Property	110.1	114.0	—	—

Canada Life Group
2-6 High St, Potters Bar, Herts P. Bar 51122

Crusader Insurance Plc
Reigate, Surrey RH2 8BL 07372 42424

Devonshire Life
29 Glasshouse St., W1R 5RG 01-434 3611

Cannon Assurance Ltd
1 Olympic Way, Wembley HA9 0NB 01-902 8876

Gresham Unit—Cont.

Growth & Sec. Life
25 Bolton Rd, Haywards Heath

Guardian Royal Exchange
Royal Exchange, EC3

INSURANCE, OVERSEAS & MONEY FUNDS

Swiss Life Pensions Ltd
99-101 London Rd, Sevenoaks 0732 450161

Equity	243.28	250.80		–
Fixed Int.	152.57	153.10		–
Index Linked	114.29	114.96		–
Property	182.52	188.16		–
Cash	142.48	142.48		–
Mixed	219.99	226.79		–
International	198.44	204.80		–

Next sub day Jan 2.

TSB Life Ltd
PO Box 3, Keens Hse, Andover SP10 1PG 0264 62188

Managed Fund	147.2	155.1		–
Property Fund	117.9	124.2		–
Fixed Int Fund	126.9	133.7		–
Money Fund	118.8	125.2		–
Equity Fund	191.6	201.8		–
TSB Pensions Ltd.				
Managed Pension	401.1	422.9		–
Deposit Pension	115.2	121.4		–

Target Life Assurance Co. Ltd.
Target House, Gatehouse Road, Aylesbury, Bucks
Aylesbury (0296) 394000

Managed	391.0	411.6	-1.0	–
Property	261.0	274.8		–
Fixed Int.	157.1	165.4	+0.4	–
UK Equity	463.6	488.1	-0.5	–
Int. Equity	327.5	344.8	-1.9	–
Deposit	157.3	165.6		–
Managed Property	205.8	216.7	-0.3	–
American Eagle	108.3	114.0	-1.4	–
Technology	85.1	89.6	-0.5	–
Worldwide Income	173.6	182.8	-1.0	–
Pacific	175.0	184.3	-1.2	–
Australian	87.2	91.8	+0.8	–
Japan	281.7	296.6	-0.8	–
Commodity	104.3	109.8	-0.8	–
Gold	128.2	135.0	+1.3	–
Financial	193.4	203.6	-0.9	–
Income	228.3	240.4	+0.1	–
Special Situations	201.0	211.6	+2.5	–
Preference	134.6	141.7	+2.6	–
Managed Currency	94.7	99.7	+0.1	–
European Spec. Sits.	194.0	204.3	-1.4	–
Sterling	7.4			–
Residential Property	98.0	103.2		–
Pension Funds				
Managed Pension	1150.3	1210.9	+0.1	–

The Norminster Group
71, London Rd, Peterborough, PE2 9BB 0733 42280

Magn Scot Mut.	103.8	109.3		–
Man-Schroder	99.6	104.8		–
Pen Man-Schroder	99.0	104.2		–

PBR Fund Management Ltd.
346a Queen Victoria St, EC4V 5AP 01-236 4070

Flexi-Bond	130.0	136.4		–
Flexi Pension Bond	119.1	125.2		–
Managed Bond		103.1		–
Managed Pension		103.2		–

The Porchester Group
91 Wimpole Street, London W1M 7DA 01-493 9090
Porchester Managed Funds

Albany	114.5	120.4		–
Cornhill	102.5	108.0		–
High Life	107.3	113.0		–
Royal Heritage	100.0	105.3		–
Schroder	96.7	101.7		–
Standa	115.6	121.6		–
Target	118.1	124.4		–
Trident	110.6	116.6		–
Porchester Managed Pension Funds				
Albany	123.6	130.1		–
Schroder	98.1	103.2		–
Standa	120.2	126.5		–
Target	108.4	114.2		–

Managed by Porchester Securities Limited

Sharp (Albert E.) & Co
12 Newhall Street, Birmingham B3 3ER 021-236 5801

Man-Clerical Med.	110.0	115.8		–
Pens. Man-Schroder	451.7	475.4	+1.4	–

Towry Law & Co
57 High St, Windsor, SL4 1LX 0753 868244

Clerical & Medical	115.8	121.9	-0.2	–
Guardian Royal Exch.	95.5	100.6		–
M&G Ass (Life)	109.2	114.8		–
M & G Ass (Pens)	124.5	130.9		–
Norwich Union Ass Mgr.	52.7	55.5	-0.3	–
Royal Life (UnitLinkAss)	98.0	103.1	-0.2	–
Scot Equitable (Life)	146.2	153.9		–
Scott Equitable (Pens)	96.6	101.8		–
Scot Mutual (Life)	148.8	156.7		–
Scot. Mutual (Pens)	135.2	142.4		–
Vanbrugh Life Ass.	115.4	122.0		–

J. R. Ward & Co Ltd

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

MANAGEMENT SERVICES

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES

[illegible]

TRADITIONAL OPTIONS

3-month call rates

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
22Jul	22Jan	Exch 13¼pc 1987	100⅛	16.12	—	—
10 Aug	10 Feb	Treas 10¼pcCv '87	99[illegible]	4.7	10.27	11.20
24Aug	24Feb	Exch 2½pc 1987	99[illegible]	18.7	—	—
6Oct	6Apr	Exch. 10½pc 1987	99[illegible]	1.9	10.51	11.79
1 Nov	1 May	Funding 6½pc 85-87	99	25.9	6.57	9.72
12Dec	12Jne	Treas. 10pc 1987	99[illegible]	18.12	10.03	10.72
14Jan	14Jly	Treas 3pc 1987	97[illegible]	8.12	3.09	8.61
3May	3Nov	Treas. 12pc 1987	101	29.9	11.88	10.62
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	97[illegible]	22.12	7.94	10.37
10Nov	10May	Exch 10½pc '88	99[illegible]	6.10	10.53	10.74
14Dec	14Jne	Treas 9¾pc Cv '88	98[illegible]	18.12	9.88	10.75
1Jan	1Jul	Transport 3pc '78-88	92[illegible]	25.11	3.23	8.15
25 Apr	25 Oct	Treas. 9½pc '88	98[illegible]	18.9	9.69	10.69
22 Aug	22 Feb	Treas 11½pc 1989	101[illegible]	16.7	11.33	10.78
18 Oct	18 Apr	Treas 9½pc Cnv 1989	97[illegible]	11.9	9.74	10.74
15Nov	15May	Treas 3pc 1989	88[illegible]	9.10	3.38	8.29
14Dec	14Jun	Treas 10½pc 1989	99[illegible]	18.12	10.55	10.70
1Feb	1Aug	Exch.10pc 1989	98[illegible]	29.12	10.17	10.77
29 Mar	29 Sep	Exch 11pc 1989	100[illegible]	26.8	10.95	10.70
15 Apr	15 Oct	Treas 5pc 1986-89	89[illegible]	8.9	5.60	9.47
15 May	15 Nov	Exch 10¼pcCv '89	100[illegible]	9.10	10.16	9.86
15 Jul	15 Jan	Treas 13pc 1990‡‡	105[illegible]	9.12	12.27	10.66
12 Aug	12 Feb	Exch 11pc 1990‡‡	100[illegible]	7.7	10.92	10.70
22 Sep	22 Mar	Exch. 12½pc 1990	104[illegible]	18.8	11.94	10.73
8 Nov	8 May	Treas. 3pc 1990	84[illegible]	2.10	3.55	8.40
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	93[illegible]	18.12	8.80	10.44
25 Apr	25 Oct	Treas. 10pcCv 1990	97[illegible]	18.9	10.29	10.74
22 May	22 Nov	Exch 2½pc 1990	80[illegible]	16.10	3.10	8.09

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
	May	‡Mentec 10p	78	13.10	L2.46	2.6	4.4	12.0
Jan	May	[illegible]	68	20.3	1.5	2.1	3.1	17.5
August		‡Morris & Crane 10p	114xd	22.12	L2.7	2.9	3.3	13.9
Jan.	July	Morgan Crucible	306	20.11	10.5	1.5	3.9	20.3
	May	‡Morris (W) F.A. 20p	15½	—	—	—	—	—
	July	Myson Grp 10p	158	29.9	12.63	2.6	2.5	19.4
Nov	June	‡NMW Computers	218	13.10	16.0	3.0	3.9	12.5
Mar.	Sept.	Nash Inds.	136	11.8	1.5	♦	1.6	♦
—		Neil & Spencer 10p	18	5.81	—	—	—	—
Jan	July	Newman Inds 10p	36	15.9	10.8	1.5	3.1	27.5
Apr	Sept	Noble & Lund 10p	80	29.9	0.7	4.3	1.2	26.3
April	Dec	Nolton	48	24.11	1.2	2.9	3.5	13.8
—		‡Norank Systems 5p	123	15.9	ul.5	—	1.7	15.8
Jan.	Aug.	Norcros	247xd	22.12	19.3	2.9	5.3	11.3
Oct.	April	Nu-Swift 5p	227	27.10	13.5	2.1	2.3	29.2
May	Nov	OCE 9pc Cnv 1987-92	£312½	27.10	09%	—	12.9	—
Feb.	Aug.	Oakwood Grp.	90	27.1	15.0	1.3	‡	12.5
Dec	July	Office & Elect	175	27.10	8.5	2.9	6.8	7.1
—		‡Omnitech 1p	31	—	—	—	—	—
—		‡Optometrics $0.01	23	—	—	—	—	—
May	Nov	Oriflame £1	845	29.9	124.5	2.1	4.1	16.4
Jan.	June	Ovenstone 12½p	64	12.5	φ03.23c	1.9	16.7	3.2
December		‡PCT Grp 10p	137	25.9	d3.2	—	5.6	—
April		PLM 'B' Sk 25	£18¼	3.4	Q23.2%	0.3	3.3	—
June	Dec	PSM Intl	193	8.10	s4d5.5	2.1	4.1	14.4
	June	‡Pacer Systems $0.01	165	25.4	L$03.84c	3.4	1.6	18.4
Apr.	Dec.	‡Pacific Sales 10p	45	15.9	3.0	1.4	9.4	10.7
Apr	Nov	Parker Knoll 'A'	439	29.9	12.0	3.2	4.0	11.0
February		‡Parkfield Group 2p	200	11.8	3.6	4.2	2.5	12.7

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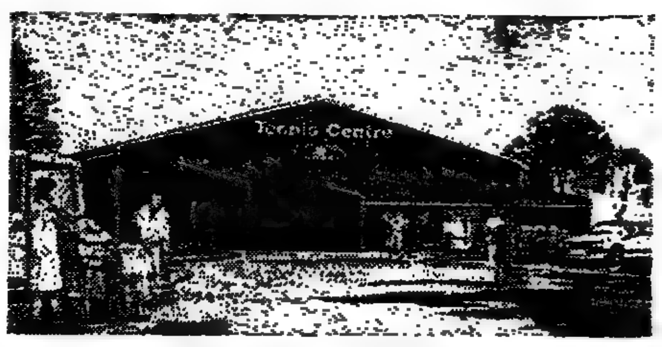
CONSTRUCTION

Indoor Tennis Initiative

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

The Lawn Tennis Association and Sports Council have chosen the three principal contractors for their £50m programme to build 500 indoor tennis courts in Britain over the next five years.

The main contractors are the Derbyshire-based Shand with structural specialists Conder Midlands, the Elsworth Sykes architectural partnership with Vic Hallam, and the Dutch-based Pellikaan Construction.



Known as the Indoor Tennis Initiative, the programme aims to help raise the standard of British tennis by making covered practice facilities available to the general public throughout the year.

It started as a result of the Lawn Tennis Association's concern about the lack of covered courts in the UK. Whereas France has 3,000 indoor courts and Germany has 2,600, the UK has only 189.

The Indoor Tennis Initiative aims to help remedy this gap by building 100 indoor tennis centres in the next five years, each to have up to six courts, and costing an average of £500,000.

The three principal contractors were chosen from 120 applicants. They had to submit designs for a typical four-court indoor tennis centre with changing rooms, bar, viewing area, offices and restaurant, which could be constructed in under 30 weeks.

The three groups which submitted the winning proposals will now compete for each tennis centre separately.

Local authorities will be offered grants for an approved tennis centre by the Lawn Tennis Association, Sports Council and All England Lawn Tennis Club, and will then ask the three approved contractors to bid.

No contracts to build centres have yet been awarded. The first six projects are nearly ready to go out to tender, with the first likely to be at Warrington, for the Development Corporation.

Completing Malaysian highway

Malaysia has awarded a 3.4bn ringgit (£883m) highway contract to UNITED ENGINEERS MALAYSIA Bhd under its privatisation scheme. Work is expected to begin in April on the remaining stretches, totalling 504 km, of the half-completed north-south highway, and the company expects to complete it by end-1992. About 85 per cent of the financing will come from foreign sources, mainly Britain and Japan. Some 16 companies and banks have submitted lending proposals.

The company is negotiating with the government and local and foreign banks for finance for the project. The scheme will create 15,000 jobs in the Malaysian construction industry, which has been undergoing a slump since early 1982.

*

TRUETT & STEEL has been awarded contracts worth over £3.5m. A design and build scheme worth £1.8m to provide 47 units of sheltered accommodation, some for the severely handicapped, is being undertaken for Croydon Churches Housing Association in Beulah Road, Thornton Heath. An important feature of this scheme was the requirement that the period from initial concept to full start on site was under five months. The work includes a warden's flat, two day-rooms, two lifts, laundry and guest suite. The building is due for completion in September 1987.

Work has started on the second phase, £1.4m, of a £2.3m scheme of sheltered housing for the Whitgift Foundation within the grounds of Whitgift School along Brighton Road, South Croydon. It will provide 35 flats, a warden's flat, a community hall, chapel, hospital wards, centralised kitchen and dining room. Initial "enabling works" worth £250,000 were carried out during the summer holidays including the adaptation of the existing buildings and services for commencement of a future extension to the Design and Technology Department. Other contracts include restoration works to the exterior of a listed church in Brixton and supply of joinery under sub-contract for the refurbishment of the public rooms of an embassy and main reception area of British Aerospace's offices.

Sewers and roads for Rees Hough

REES HOUGH (CIVIL ENGINEERING) has won contracts in both public and private sectors worth a total of £4.7m. Largest is a £1.2m contract to construct a 2000 metre perimeter retaining wall for main contractor Sir Robert McAlpine and Sons at the new Port Solent Marina in Portsmouth. Additionally, Rees Hough has a contract worth £350,000 for surface water drainage work on the same project. Largest public sector contract is a £750,000 flood relief sewer project in Islington, North London, for construction of tunnels and manholes to link with existing local and main sewers for Thames Water Drainage and road work for the Regan Group at its private housing development at St Leonards on Sea, Suffolk, is worth £750,000. Llanelli Borough Council as agents for the Welsh Water Authority has awarded a £500,000 contract to construct sewers using both pipe jacking and open cut tunnelling. Pedestrian subways are to be built under railway embankments at Camberley and Guildford. The con- shire, worth £300,000. The £200,000 respectively. Another pedestrian subway contract involves installation of a pre-cast box unit under the A34 dual carriageway at Botley, Oxfordshire, worth £300,000. The Lesser Group has awarded a £300,000 contract to build sewers and roads, including a roundabout, for a Tesco superstore in Crawley, West Sussex.

Paris museum rigging based on yacht struts

LEWMAR's Navtec division has won the contract to supply stainless steel rigging to be used in the construction of the entrance pyramid at the Louvre Palace Museum, Paris. The order, worth about £500,000, is for 3,600 stainless steel pre-formed rods and 7,200 associated terminals. The units are based on those designed by Navtec for holding up the masts of racing yachts, and resisting the tough and corrosive conditions of off-shore yacht racing. The Louvre pyramid, which promises to be one of Europe's most controversial buildings, is being built by CFEM in the main palace courtyard. Four equilateral triangles of glass will be supported by Navtec's web of light thin rods, giving the effect of almost total transparency.

*

TAYLOR WOODROW CONSTRUCTION (SCOTLAND) has a contract, valued at £280,000, from East Kilbride Development Corporation to build eight two-person flats and four single storey two-person homes at Morrishall Road, Stobo, East Kilbride, Lanarkshire.

*

The BRI-MAC GROUP has been appointed to carry out contracts worth £6m on design and build schemes. For Capital & Counties, retail warehouse units will be built at Waterlooville, Hampshire. In Southampton, a warehouse and an office block will be constructed for Brookton and Microinfo has commissioned offices, warehouse and stores in Alton.

*

C. R. BOOTH has been awarded a contract for work at the Grange Park Hotel at Willerby. The contract, value £800,000, is for a three-storey extension to the hotel with restaurant and conference facilities, and bedrooms above.

This week in Parliament

COMMONS

Business for week beginning January 12, after Christmas holidays:

MONDAY: Local Government Finance Bill, second reading.

TUESDAY: Debate on the Army.

WEDNESDAY: Debate initiated by the Opposition, subject to be named after Christmas. Industrial Training Levy (Construction Board) Order 1987, motion.

THURSDAY: Coal Industry Bill, remaining stages. City of London (Various Rights) Bill.

FRIDAY: Private members' business, including Free Television Licences for Pensioners Bill, Obscene Publications Bill and Police Complaints Authority (Information) Bill, all second reading.

Company Notices

WORLD BOND FUND
(SICAV)
Registered Office: 10, Boulevard Roosevelt,
Boite Postale 408, L-2014 Luxembourg.
R. C. Luxembourg: B 23.040

NOTICE OF ANNUAL GENERAL MEETING AND OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting and an Extraordinary General Meeting of shareholders of World Bond Fund will be held at its registered office at 10 Boulevard Roosevelt, Luxembourg, at 11 am on 20th January 1987, for the purpose of considering and voting upon the following matters:

AGENDA

1. Reports of the Directors and of the Statutory Auditor and approval of the financial statements for the period ended 31st August 1986.
2. Decision on the appropriation of the net profit and declaration of a dividend of US$0.20 per share as recommended by the Board of Directors.
3. Discharge to be granted to the Directors and to the Statutory Auditor for the performance of their duties during the period ended 31st August 1986.
4. (a) Ratification of the co-optation of Mr Hiroyasu Iiyama as a Director.
   (b) Re-election of the Directors holding office at present and election of Coopers & Lybrand as the Statutory Auditor.
5. Amendment of Article 21 of the Articles of Incorporation to provide for the net asset value computation to two decimal places only.
6. To decide on any other business which may properly come before the meeting.

VOTING

Resolutions on items 1 to 4 and 6 above may be passed without a quorum by a simple majority of the votes cast thereon at the meeting, with the restriction that no shareholder, either by himself or by proxy, can vote for a shareholding in excess of one fifth of the shares outstanding or two fifths of the shares represented at the meeting. Resolution on item 5 above requires a quorum of not less than one half of the shares issued and outstanding and a majority of two thirds of the votes of the shareholders present or represented at the meeting, without limitation of the voting power.

In order to vote at the meetings: Shareholders who cannot attend the meetings are invited to send a duly completed and signed proxy form to the registered office of the fund stated above, to arrive not later than 14th January 1987. Proxy forms will be sent to the registered shareholders with a copy of this notice and can be obtained from the Manager, WARBURG INVESTMENT MANAGEMENT JERSEY LIMITED, 39-41 Broad Street, St. Helier, Jersey, Channel Islands.

The Board of Directors

5th January, 1987

REDEMPTION NOTICE
BANQUE WORMS
US$75,000,000
Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that all the outstanding Notes will be redeemed on 4th February 1987. Payment of the principal of the Notes will be made at par, together with the interest accrued, upon presentation and surrender of each Notes with all coupons appertaining thereto maturing after 4th February 1987.

Places of payment:
Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, NY 10015—U.S.A.
Swiss Bank Corporation, Aeschenvorstadt 1, CH-4002 Basle—Switzerland
Morgan Guaranty Trust Company of New York, 35 Avenue des Arts, B-1040 Brussels—Belgium
Morgan Guaranty Trust Company of New York, Mainzer Landstrasse 46, D-6000 Frankfurt am Main—West Germany
Banque Internationale a Luxembourg S.A., 2 Boulevard Royal, P.O. Box 2205, L-1022 Luxembourg—Luxembourg
Morgan Guaranty Trust Company of New York, 1 Angel Court, London EC2R 7AE—England

$US 300,000,000
RHONE-POULENC S.A.
UNDATED FLOATING RATE CAPITAL NOTES

For the six months, December 16, 1986 to June 16, 1987, the rate of interest has been fixed at 6 1/2 % P.A.

The interest due on June 16, 1987 against coupon nr 1 will be for the denominations of $US 10,000, $US 328,61 and for the denominations of $US 100,000, $US 3286,11 and has been computed on the actual number of days elapsed (182) divided by 360.

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APPOINTMENTS

Deputy chief executive of Lloyds Bank

Mr Michael Thompson

Mr Michael Thompson will become deputy chief executive of LLOYDS BANK when Mr Fred Crawley retires on June 30. Mr Thompson, who is the bank's assistant chief executive, joined Lloyds Bank in 1948 and worked in a number of branches in and outside London before becoming general manager for the northern area of the bank in 1978. He has served on the boards of Lloyds Bank California, the National Bank of New Zealand and Lloyds Bowmaker, and as an executive director of Lloyds Bank International he headed its merchant banking division. He became assistant chief executive in July 1985 where he has had particular responsibility for the bank's extensive development of new technology.

His task will be to focus on developing retail, commercial and corporate banking services to meet the changing needs of the business and personal banking communities. Mr Challinor has been regional director (London south) since 1984.

*

Mr C. S. Jakes, sales director, has retired from the board of BAGGERIDGE BRICK. Mr J. Fasey, former production director, also retired from the board. They have both agreed to serve as consultants. Mr R. P. Haines, following his appointment to the executive board last year, has joined the board as finance director. Two new appointments have been made to the executive board. Mr R. G. Hughes, has been appointed sales director and Mr R. J. Edwards, who joined Baggeridge in December, has been appointed commercial director.

*

Mr Adrian Moorey has been appointed director of information at the DEPARTMENT OF TRADE AND INDUSTRY in succession to Miss Colette Bowe. Mr Moorey, 40, is currently Head of Information at the Department of Employment. His previous posts have been in the Home Office press office and the Prime Minister's press office. He will join DTI in the new year.

*

Mr Raymond (Ray) Challinor has been appointed MIDLAND BANK'S regional director (City and West End) from January 1, in a reorganisation of the bank's regional network. Following detailed research by Midland its regional offices have been reformed into 12 retail management centres. These reflect more closely county boundaries an dareas of business, and their

*

The vitamins and fine chemicals division of ROCHE UK has been reorganised following the decision of its head, Mr Tony Heath, to take early retirement. Two divisions have been created, one responsible for the animal nutrition business and the other responsible for the food industry and pharmaceutical industry interests. Dr Michael Singer has been appointed head of the animal nutrition division. Mr David Robertson has been made head of the food/pharma division. The diagnostics division will also have a new head, Mr Roman Zwolenski.

*

MAIL NEWSPAPERS, has appointed Mr Alastair M. Smith as a director and a general manager. He will have special responsibility for co-ordinating the publishing operations in relation to the moves to Surrey Docks and Barkers, Kensington. Mr Smith was previously director and group general manager of Singapore Newspaper Services.

*

Mr Renzo Martinelli, who has spent over four years in London as chief manager of BANCO DI ROMA, is returning to Italy to take up a new assignment as regional general manager in Turin. Mr Vittorio Sisto, former president and chief executive officer of Banco di Roma (Chicago), will become chief manager, London branch.

BASE LENDING RATES

[illegible]

DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

TUESDAY, JANUARY 6

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

WEDNESDAY, JANUARY 7

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

THURSDAY, JANUARY 8

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

FRIDAY, JANUARY 9

COMPANY MEETINGS—

BOARD MEETINGS—

DIVIDEND & INTEREST PAYMENTS—

SATURDAY, JANUARY 10

DIVIDEND & INTEREST PAYMENTS—

SUNDAY, JANUARY 11

DIVIDEND & INTEREST PAYMENTS—

[illegible]

Trade fairs and exhibitions: UK

January 15-18
Antiques Fair (04447 2514) Kensington Town Hall

January 18-22
International Light Show (05884 658) Olympia

January 20-22
Office and Contract Interiors Exhibition — DESIGN (01-868 4499) Design Centre

January 22-25
Ideal Home Exhibition (0202 296375) Metro Exhibition Hall, Brighton

January 23-25
Holiday and Leisure Spectacular (01-583 9199) Kensington Exhibition Centre

January 27-29
Hirex Exhibition (01-688 7788) Wembley Conference Centre

January 31-February 4
British International Toy and Hobby Fair (01-701 7127) Earls Court

February 1-5
International Spring Fair (Gift section 01-855 9201, Hardware section 0604 22023) NEC, Birmingham

February 3-4
Entrepreneurs' Exhibition (01-493 0000) Royal Garden Hotel, W8

Overseas

January 9-12
International Furniture Exhibition (01-439 964) Paris

January 12-15
Middle East Electronics Communications Show and Conference—MECOM (01-486 1951) Bahrain

January 13-18
International Furniture Fair (01-930 7251) Cologne

January 14-20
International Oil and Gas Chemical and Process Engineering Industries Exhibition and Conference—CHEMTECH AND ORT (01-231 2043) Bombay

January 15-18
Travel Exhibition (01-486 1951) Helsinki

January 18-21
Hong Kong Fashion Week (01-930 7955) Hong Kong

January 31-February 8
Caravan, Camping, Car Boat, Garden and Tourism and Leisure Exhibition (01-551 2191) Hanover

February 21-25
Spring Fair (01-734 0543) Frankfurt

February 25-March 3
International Fairs: Food Materials Handling and Warehousing; Packaging and Printing (021-455 9600) Brno

Business and Management Conferences

January 19
International Business Communications: Longterm finance for commercial property development (01-236 4080) London Press Centre, EC4

January 20
IBC Legal Studies and Services: The annual company report (01-236 4080) Portman Hotel, W1

January 21-22
IBC: Control accounting and taxation of bank risk (01-236 4080) Café Royal, W1

January 22
The Strategic Planning Society: Strategic issues for the 1990s—new frontiers? (01-235 0246) 6 John Adam Street, WC2

January 26-27
Brunel Management Programme: Managing stress at work (0895 56461) Brunel University, Uxbridge

January 27
Longman Seminars: Relief from Capital Gains Tax (01-242 4111) Barbican Centre, EC2

January 27
NEDO: Who benefits from corporate venturing? (01-211 3100) Café Royal, W1

January 28-30
Insurance and Reinsurance Research Group: Cargo insurance clauses international workshop (01-236 2175) Tower Hotel, EC3

January 28
IBC Legal Studies and Services: Takeovers and acquisitions in the US—the key issues (09323 55244) London Press Centre, EC4

January 28
OCH Editions: The practical implications of the Financial Services Act (01-491 1323) Hyde Park Hotel, SW1

January 28-29
Euromoney Publications: The gilts market explosion (01-236 3288) Hilton Hotel, W1

January 29-30
Financial Times Conferences: The Second FT Defence Conference—entering the American market (01 621 1355) Hotel Inter-Continental, W1

January 30
Oracle Business Information: Basic accounting for life offices (01-727 3505) CFS Conference Centre, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Bryant
construction
The Business & Retail Park Builders
New Building, Refurbishment, Infrastructure
BRACKNELL 0344 426688 021-704 5111 SOLIHULL

Company Notices

Nationwide Leisure Plc

VERY IMPORTANT NOTICE TO SHAREHOLDERS

On the 3rd October, 1986, the Company announced its intention to seek shareholders' approval of a proposed major acquisition of Nursing Homes and an associated £8.3 million Rights Issue. The announcement said that the acquisition would be completed on 17th November, 1986.

When in November no Extraordinary General Meeting was called we sought explanations from the Company and finally wrote to Mr Brian P. Gurnett on 19th December, 1986, as follows: "I write to inform you that unless you can confirm that the information regarding the proposed acquisition and consequent rights issue will be published before 24th December, 1986, I will take steps to request an Extraordinary General Meeting of the Company in accordance with Sections 368 and 370 of the Companies Act 1985." On 23rd December, 1986, the Company issued the following announcement:—

* * * * * * *

On 2nd October, 1986, it was announced that Nationwide Leisure Plc had entered into conditional contracts for the acquisition of a group of private nursing and residential homes and development properties in the East Midlands area, due for completion on 17th November, 1986. It was also announced that this acquisition would be funded by a rights issue.

Owing to a delay in the production of an accountants' report the conditional contract has been amended at the request of the vendors, so that completion will not now take place until 8th April, 1987. Accordingly, a circular will be sent to shareholders in due course.

For further information, please contact:

Mr. B. P. Gurnett, Managing Director
NATIONWIDE LEISURE PLC
Hamilton House, 111, Marlowes, Hemel Hempstead, Herts. HP1 1BB
Tel. No: 0442 69446

* * * * * * *

This notice has been commissioned for the benefit of all minority shareholders in Nationwide Leisure Plc by Geo. Akins (Holdings) Ltd., 5-7, Warser Gate, Nottingham, who control 16.5% of the issued share capital of Nationwide Leisure Plc. We will continue to seek explanations from Mr. Vincent Cobb (chairman) and Mr. B. P. Gurnett (managing director) as to why during the past four months the Company's auditors, Messrs. Touche Ross, have not been able to produce their Report confirming that pre-tax profits for the twelve months ended 31st August, 1986, were at least £500,000 on the businesses being acquired and the Company's valuers, Fleury Manico, confirming that the aggregate valuation of the assets is not less than the consideration.

WORLD STOCK MARKETS

AUSTRIA

1986/87 High	Low	Jan. 2	Price Sch
2,650	2,120	Credit'nst'lt pp	2,130
3,850	3,075	Goesser	3,210
15,000	12,700	Interunfall	13,150
21,750	11,000	Jungbunzlauer	11,450
2,475	1,950	Laenderbank	2,100
795	560	Perlmooser	615
211	150	Steyr Daimler	167
12,500	8,850	Veitscher Mag	11,151

BELGIUM/LUXEMBOURG

1986/87 High	Low	Jan. 2	Price Frs.
3,800	2,290	B.B.L.	3,210
16,650	9,600	Banq. Gen. Lux.	16,000
17,000	9,400	Banq. Int.A.Lux.	16,050
14,500	6,250	Bekaert	10,625
4,650	2,640	Ciment CBR	4,000
195	120	Cockerill	142
3,240	1,662	Delhaize	2,750
5,110	3,580	EBES	4,850
17,350	10,425	Electrobel	14,925
2,700	1,810	Fabrique Nat.	1,990
9,330	3,580	GB Innc BM	9,170
4,525	3,695	GBL (Brux)	3,580
6,800	4,310	Generale Bank	6,080
6,850	4,750	Gevaert	6,020
8,150	5,700	Hoboken	8,000
3,995	2,880	Intercom	3,850
4,450	2,430	Kredietbank	4,110
11,650	9,900	Pan Holding	10,800
9,980	6,050	Petrofina	9,410
29,488	17,200	Royale Belge	29,412
3,500	2,120	Soc. Gen. Belge	3,375
13,400	7,710	Sofina	12,000
9,000	6,050	Solvay	8,270
585	185	Stanwick Intl.	185
6,770	4,675	Tractionel	6,530
9,900	5,300	UCB	9,500
6,200	3,705	Wagons Lits	5,500

DENMARK

1986/87 High	Low	Jan. 2	Price Knr. %
750	510	Baltica Skand.	720
348	235	Cop Handelsb'nk	255
470	318	D. Sukkerfab.	338
381	259	Danske Bank	310
298	160	East Asiatic	172
1,240	845	Forenede Brygg.	846
565	269	GNT Hld.	295
820	805	I.S.S.B.	695
845	455	Jyske Bank	460
281	218	Novo Inds*	238
339	229	Privatbanken	249
1,060	685	Sophus Berend	685
331	119	Superfos	163

NORWAY

1986/7 High	Low	Jan. 2	Price Kroner
204	142	Bergens Bank	187.5
285	245.5	Bergesen B	265
229	151.5	Christiania Bank	199.5
191	146	Den Norske Cred	172.5
191	88	Elkem	92
197.5	131	Kosmos	139
195	130	Kvaerner	170
156.2	82	Norcem	119
246	175	Norsk Data	204
169.5	122	Norsk Hydro	144
477.5	324	Orkla-Borregaard	375
319	256	Storebrand	290

FRANCE

1986/7 High	Low	Jan. 2	Price Frs.
1,811	1,473	Emprunt 4½% 1973	1,620
9,550	7,190	Emprunt 7% 1973	8,600
593	298	Accor	472
845	606	Air Liquide	680
750	505	BIC	565
2,700	1,610	Bongrain	2,390
1,467	909	Bouygues	1,185
4,750	2,730	BSN Gervais	4,225
2,558	1,368	CIT Alcatel	2,323
5,780	2,218	Carrefour	3,540

CANADA

TORONTO

Closing prices January 2

MONTREAL

Closing prices January 2

OVER-THE-COUNTER

Nasdaq national market, closing prices

Continued from Page 29

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

"What's special about these Danish companies?"

ABN Bank Copenhagen Branch, Assurandør-Societetet, Barclays Finans A/S, Berlingske Tidende, Bikuben, Boliden, Buch+Deichmann, Danish Steel Works Ltd., Danish Telecom International A/S, Danish Turnkey Dairies Ltd., Dannebrog Shipyard Ltd., A/S De Danske Sukkerfabrikker, Doml A/S, Duracell-Daimon ApS, East Asiatic Co. Ltd. (A/S Det Østasiatiske Kompagni), A/S Elizabeth Arden, Esso-Food, F. L. Smidth & Co. A/S, Forlaget Management A/S, Frisko Sol Is A/S, Ginge Brand & Elektronik A/S, Gilinges Danmark A/S, Grundfos International A/S, Haldor Topsøe A/S, Hellerup Bank A/S, Henriques Bank Aktieselskab, Kreditforeningen Danmark A/S, Kommunedata, Midtbank, A/S Niro Atomizer, Norsk Hydro Danmark a.s, Nykredit, Price Waterhouse, Privatbanken A/S, Revisionsfirmaet C. Jespersen, Skandinavisk Tobakskompagni, Statsanstalten for Livsforsikring, The Jutland Technological Institute, Aktieselskabet Varde Bank.

They are all regular readers of the FINANCIAL TIMES • European Edition

For further information about subscription rates in Scandinavia, please contact K. Mikael Heiniö in Copenhagen:

01-13 44 41

Closing prices, January 2

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	17	AAR s	.44	1.8	17	43	24¾	23⅝	24¼	+⅞
30	21¾	ADT	.92	3.3		225	28	26⅞	28	+1
33	15⅝	AFG s	.12i	.4	14	115	29	28⅝	28⅞	
29	16¾	AGS			19	72	28⅝	28¼	28⅝	+¾
15	6¾	AMCA				106	7	7	7	
62⅞	39¼	AMR			13	1825	54¾	53¾	54⅝	+1
16½	10	ARX	.71t	6.0	11	28	11¾	11⅝	11¾	
41½	28¾	ASA	2a	5.4		520	38	37¼	37⅜	−⅛
18⅝	9¾	AVX		3.0		185	10¾	10¼	10¾	+⅛
32	26	AZP	2.72	9.4	9	5069	28⅞	28⅝	28⅞	+½
55	31⅛	AbtLb s	.84	1.8	21	2278	47⅝	45⅞	47½	+1⅞
32	25	AccoWd	.56	2.2	17	22	26	25⅞	26	+¼
14⅞	9	AcmeC	.40	3.7		14	10⅞	10½	10⅞	+½
9¼	6⅛	AcmeE	.32b	4.9	17	30	6½	6⅜	6½	+¼
23⅞	17½	AdaEx	4.45e	23.		166	19½	19⅛	19¼	+⅛
16⅝	9¾	AdmMl s				67	14⅝	13¾	14⅛	+⅝
20⅝	12⅛	AdvSys	1.45t	8.1	15	61	18½	18	18	−½
32⅞	12⅞	AMD				1203	14⅝	13½	14	+¼
12⅝	5¼	Adobe				106	6⅝	6½	6½	−⅛
18⅝	13¾	Adob pf	1.84	11.		13	16⅝	16¼	16¼	
20¼	16⅝	Adob pf	2.40	13.		32	18⅝	18¼	18⅝	+⅜
18⅝	11⅛	Advest	.12a	1.0	9	68	12¼	11⅞	12⅛	+⅜
66¼	52⅛	AetnLf	2.64	4.6	8	5947	57⅛	56½	57⅛	+¾
54⅝	51⅛	AetL pf	3.94e	7.6		10	51⅞	51⅞	51⅞	+⅛
73⅝	34⅞	AhlPb s	.44	.6	35	87	71½	70½	71½	+1⅝
28¾	15⅝	Ahmns	.46	2.1	7	2085	21¾	21⅛	21¾	+⅛
5¾	2⅞	Aileen			66	156	4⅛	4⅛	4⅛	+¼
41⅝	29⅛	AirPrd s	.80	2.2	45	262	35⅝	35¼	35⅝	+½
32	16	AirbFrt	.60	2.0	21	246	30¼	29⅞	30	+⅛
9⅞	8⅛	Airgas n				33	8½	8⅜	8⅜	
20⅝	17⅛	Airlse n	.49e	2.8		69	17¾	17⅝	17¾	+½
2	¼	AlMoan	.60c			219	13-32	13-32	13-32	
29	25⅞	AlaP pf	1.94e	7.4		1	26¼	26¼	26¼	+⅞
10¾	8¼	AlaP dpf	.87	8.7		13	10	9⅞	10	+⅛

Continued on Page 29

NYSE COMPOSITE CLOSING PRICES

Continued from Page 28

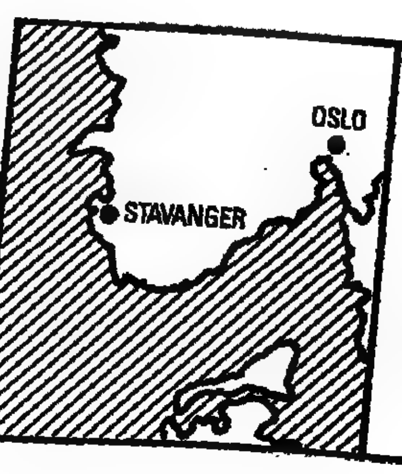
Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER

Nasdaq national market, closing prices



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Continued on Page 27

FOREIGN EXCHANGES

EMS realignment likely to follow federal poll in West Germany

by Colin Millham

THE DOLLAR fell substantially in 1986, but as the year ended the general view was that a further devaluation will be required this year to reduce the very large US trade deficit.

Not every one agreed that a further fall in the value of the dollar would make a major contribution to cutting the deficit, although Mr Karl Otto Poehl, President of the West German Bundesbank, can probably be forgiven for trying to prevent another sharp shift in exchange rates.

Mr Poehl said last week that a further fall in the value of the dollar would not be in the interests of the US, and without doubt would pose risks for further economic growth in West Germany and Europe. It would also lead to strong inflationary pressure in the US, and probably also to higher interest rates, without improving the current account deficicit significantly.

The dollar fell by just over 20 per cent against the D-Mark and the Japanese yen last year, but taking account of the Japanese trade surplus with Europe this can hardly be regarded as satisfactory by West Germany, or the other countries tied to the German economy through the European Monetary System.

In the latter part of the year the yen was kept stable against the dollar by an agreement between Japan and the US, putting increasing speculative pressure on the rate between the D-Mark and the dollar.

The US currency finished 1986 at the lowest level against the D-Mark for over six years, with the West German authorities in a difficult situation. Intervention on the foreign exchanges would have looked heavy handed, because trading was very thin over the Christmas and New Year holidays.

Alternative measures presented equal problems. The Bundesbank has made it clear there will be no cut in German interest rates until money supply growth is on target. The central bank council recently set a wider range for money stock growth of 3 to 6 per cent in 1987, compared with 3½-5½ per cent last year, but growth remains well above this range.

It is also very difficult for the central bank to pursue other than a neutral course ahead for the West German Federal elections on January 25.

The dollar's fall against the yen and the D-Mark were the largest against major currencies in 1986 and the strength of the German currency is beginning to show strains within the EMS. Even allowing for realignments, currencies such as the Danish kroner French franc and Irish punt have been pulled up because of their links with the D-Mark. The dollar has fallen by about 18 per cent against the kroner; 15 per cent against the franc; and 11 per cent against the punt.

This does not appear to be justifed by individual economic performance, particularly when measured against the fast growing economies of the Far East.

The dollar's fall against the Irish punt is the same as against the Taiwanese dollar, and substantially less than the 3.5 per cent fall against the Korean won.

Ireland and Denmark are also large trading partners with the UK, and only joined the Common Market at the same time as Britain, but the dollar has declined by only about 3.5 per cent against sterling in the last year.

The strength of the D-Mark and the relative weakness of sterling, which is not a member of the EMS, appear to make a realignment of the system inevitable after the West German elections.

£ IN NEW YORK

Jan 2	Close	Previous Close
£ Spot	1.4880-1.4890	1.4840-1.4850
1 month	0.58-0.57 pm	0.54-0.53 pm
3 months	1.67-1.64 pm	1.71-1.68 pm
12 months	6.23-6.15 pm	6.33-6.25 pm

Forward premiums and discounts apply to the U.S. dollar.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu January 2	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2346	+0.28	+0.95	±1.5368
Danish Krone	7.81701	7.85961	+0.54	+1.21	±1.6405
German D-Mark	2.11083	2.07602	−1.65	−0.98	±1.1127
French Franc	6.87316	6.87587	+0.04	+0.71	±1.3659
Dutch Guilder	2.37833	2.34560	−1.38	−0.71	±1.5059
Irish Punt	0.764976	0.764262	−0.09	+0.58	±1.6683
Italian Lira	1476.95	1446.93	−2.03	−1.76	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
100	15.06	15.18	0.00	0.02
102	13.06	13.20	0.00	0.04
104	11.06	11.25	0.00	0.09
106	9.07	9.35	0.01	0.19
108	7.11	7.51	0.05	0.35
110	5.20	6.12	0.14	0.60
112	3.42	4.48	0.36	1.32
114	2.19	3.34	1.13	2.18

Estimated volume total, Calls 1,947 Puts 1,493
Previous day's open int. Calls 12,110 Puts 6,484

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
90	9.04	8.36	0.02	0.28
92	7.08	6.58	0.06	0.50
94	5.20	5.26	0.18	1.18
96	3.45	4.07	0.43	1.63
98	2.23	3.01	1.21	2.57
100	1.24	2.09	2.22	4.01
102	0.46	1.29	3.44	5.21
104	0.22	0.62	5.20	6.54

Estimated volume total, Calls 10 Puts 0
Previous day's open int. Calls 986 Puts 347

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Jan	Calls—Last Feb	Puts—Last Jan	Puts—Last Feb
15750	14.10	14.17	0.00	0.07
16000	11.61	11.77	0.01	0.17
16250	9.14	9.47	0.04	0.37
16500	6.76	7.34	0.16	0.74
16750	4.58	5.44	0.48	1.34
17000	2.78	3.84	1.18	2.24
17250	1.47	2.56	2.37	3.46
17500	0.66	1.61	4.06	5.01

Estimated volume total, Calls 27, Puts 1
Previous day's open int. Calls 180, Puts 53

STERLING INDEX

[illegible]

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

[illegible]

*CS/SDR rate for Dec. 31: 1.6740

OTHER CURRENCIES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

[illegible]

POUND SPOT—FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

	Day's spread	Close	One month	% p.a.	Three months	% p.a.
Portugal	144½-145¼	144½-145	110-140c dis	−10.34	325-385 dis	−9.79
Spain	130.35-130.84	130.40-130.50	65-90c dis	−7.11	185-220 dis	−6.20
Italy	1333-1341	1334¼-1334¾	5½-7½ lire dis	−5.83	16-20 dis	−5.39
Norway	7.32-7.33¾	7.33-7.33½	6.10-6.70ore dis	−10.47	17.90-18.50dis	−9.11
France	6.34-6.37¼	6.34¾-6.35¼	2.50-3.00c dis	−5.18	8.70-9.70 dis	−5.78
Sweden	6.72½-6.75¼	6.73¾-6.73¾	1.70-2.00 ore dis	−3.29	5.70-6.10 dis	−3.50
Japan	157.65-158.50	158.15-158.25	0.30-0.25y pm	2.08	0.75-0.70 pm	1.83
Austria	13.47¼-13.53¼	13.50-13.50½	1.20-0.60gro pm	0.80	2.25-0.75pm	0.44
Switzerland	1.6040-1.6130	1.6085-1.6095	0.40-0.35c pm	2.80	0.92-0.87 pm	2.22

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 40.40-40.50.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.4905	1.4849	1.4737	1.4585	1.4287
D-mark	2.8675	2.8431	2.8156	2.7785	2.7037
French Fr.	9.4660	9.4434	9.4364	9.4642	9.3441
Swiss Fr.	2.3975	2.3829	2.3572	2.3198	2.2468
Yen	235.75	234.45	232.02	228.60	221.87

LIFFE US $/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

[illegible]

20% NOTIONAL SHORT GILT

[illegible]

THREE-MONTH STERLING

[illegible]

FT-SE 100 INDEX

[illegible]

THREE-MONTH EURODOLLAR

[illegible]

U.S. TREASURY BONDS 8%

[illegible]

LIFFE—STERLING £25,000 $ per £

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

[illegible]

U.S. TREASURY BILLS (IMM)

[illegible]

STANDARD & POORS 500 INDEX

[illegible]

SWISS FRANC (IMM)

[illegible]

DEUTSCHE MARK (IMM)

[illegible]

THREE-MONTH EURODOLLAR (IMM)

[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4905	1.4849	1.4737	1.4585	1.4287

IMM—STERLING $s per £

	Close	High	Low	Prev
Mar.	1.4730	1.4830	1.4725	1.4720
June	1.4560	1.4680	1.4560	1.4555
Sept.	1.4400	1.4535	1.4375	1.4390

MONEY MARKETS

Much depends on an election

LAST YEAR ended on a very optimistic note from the Confederation of British Industry about Britain's prospects for 1987, and financial markets were also encouraged by sterling's climb to its highest level for about four months against the dollar.

The pound's improvement has been largely the result of higher oil prices, but this is seen as a two-edged sword, causing problems for the export of manufactured products, and encouraging consumer spending on imports to remain at high levels.

UK clearing bank base lending rate 11 per cent since October 15

A current account deficit for the year has been widely forecast, but expectations vary widely. A recent estimate from Money Market Services was under £2bn, but James Capel forecasts over £3bn, and the National Institute of Economic and Social Research over £5bn.

James Capel regards an election in Britain as crucial in determining the rate of inflation. If there is an election, and the Conservatives win, the inflation rate could fall to 3 per cent according to Capel, but if the Tories lose, inflation is likely to rise to 4.5 per cent, and will also rise in the second half of the year if there is no election.

If the Conservative Party wins an early summer election and sterling remains supported by political events and the oil price, Capel sees a fall in bank base rates to 10 per cent, and possibly to 9 per cent, which could prove short lived. If Mrs Thatcher is not tempted into an election, the markets are forecast to get increasingly uneasy, and base rates may rise to 12 per cent by the end of the year.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan. 2) 3 months U.S. dollars		6 months U.S. dollars	
bid 6 3/16	Offer 6 5/16	bid 6 1/8	Offer 6 1/4

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 pm)

		Treasury Bills and Bonds			
Prime rate	7½	One month	4.45	Three year	6.44
Broker loan rate	7¼-7½	Two month	5.46	Four year	6.67
Fed. funds	5⅞	Three month	5.69	Five year	6.74
Fed. funds at intervention	6⅛	Six month	5.77	Seven year	7.01
		One year	5.85	10 year	7.14
		Two year	6.26	30 year	7.40

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

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C A P I T A L M A R K E T S

SECTION III
FINANCIAL TIMES SURVEY

What does 1987, a probable election year, hold for British industry? How well equipped are manufacturers to take advantage of strong consumer demand and a more competitive exchange rate? FT writers look at the balance sheet for UK Ltd.

Time to build on the shake-out

By Terry Dodsworth

On other pages

IF A conglomerate which combined a little of all that is best and worst of British industry existed in the UK today, it would not be too difficult for the chairman to construct a broadly optimistic account of its immediate future.

Positive growth opportunities, he would undoubtedly tell the annual meeting, were more than likely to outweigh the continuing decline of parts of the heavy manufacturing sector. Shareholders had not had such rosy prospects since the first oil crisis struck in the early 1970s.

The figures underpinning the chairman's upbeat message to investors would show a transformation in the company's finances in the last five years. Cash, he would point out, was rolling into the company's coffers, mounting up to a point where it was forcing the group to consider sizeable acquisitions.

The balance sheet was transformed from what it had been only five years before; and the combination of low raw material costs, moderate inflation and buoyant consumer demand was almost certain to give profits a further boost in 1987.

Hoare Govett, the UK securities company which has constructed exactly this sort of model from a cross section of British industry, says that the turnround in performance has been so strong that three sectors are now showing net cash in their balance sheets—a cash surplus after deducting all debt.

In the electrical and electronics industries, this is largely due to GEC's celebrated cash pile, while in the health and household sector it can be mainly put down to Glaxo's formidable record with its Zantac anti-ulcer drug. But even mechanical engineering, one of the trouble spots in the UK over the last decade, has become cash positive, a sign that the drastic shake out of the early 1980s is now beginning to yield dividends from reduced costs.

Hoare Govett's figures show that overall the debt to equity ratio of British industry will fall to just over 15 per cent this year from about 30 per cent in 1983. The pre-tax profit margin on sales will be up to 8.5 per cent from 7.6 per cent five years ago, and the return on capital will jump to 20 per cent from 16.3 per cent. Earnings per share over the same period will be up by well over 60 per cent, and dividends slightly more.

Just as significant for the long term, capital investment has also increased, virtually doubling in the industrial sector—a rate which indicates that UK companies as a whole have been more than replacing their assets in the last five years.

Some of the reasons behind this turnround are not hard to discern. The shakeout of labour which has contributed to the high current rate of unemployment has also had a dramatic impact on long-term costs. Productivity measures show that UK output per man has risen rapidly, allowing companies such as British Steel to pull themselves back into line with overseas competitors.

Vigorous, unsentimental restructuring has given many companies a much sharper profile as they have abandoned underperforming activities. Tougher management of assets has also become a way of life, as companies have brought in new methods to control stocks and invested heavily in up-to-date manufacturing techniques.

In the short to medium-term future, these efforts to reform the underlying cost structure of British industry should be helped by a number of external factors. Consumer demand, for a start, is expected to remain buoyant, with the Government unlikely to take any restraining action before the next election.

In some sectors, the trading cycle is strongly favourable. Chemical and electrical companies, for example, are expected to show earnings per share gains of around 20 per cent next year, results which should far outweigh the deeply depressed conditions in sectors such as agricultural equipment, mining machinery, or heavy power generating products.

More importantly, the manufacturing sector as a whole is beginning to register the beneficial effects of the slide in sterling, down by 25 per cent against the Deutschemark over the last 12 months. There are now reasonable prospects that the slide in Britain's export performance—the balance of trade in manufactured goods has gone from a surplus of £3.6bn in 1980 to a deficit of £5.8bn last year—may begin to be reversed.

Many companies report that their sales are at last beginning to reflect the impact of more competitive prices, both in overseas markets and at home in the UK, where they are winning back market share from importers.

Yet despite this positive immediate outlook, abundant questions remain over the longer term prospects for UK industry.

Will the shakeout be followed by moves to re-build? Do British companies have the confidence to attack markets on a global scale?

Are corporations working hard enough to redesign products and marketing strategies so that customers will want to buy for reasons other than competitive prices springing from a low wage economy?

Is the UK steadily falling behind in the technological skills that it needs to maintain a role among the leading manufacturing nations?

The jury is still clearly out on these issues. Indeed, there is a perception among British industrialists that the process of reorganisation, while extremely painful, is only the prelude to the equally difficult task of generating on-going productivity improvements and creating more world-class products.

"What most of us have done in British industry in the last five years is crude cost-cutting," says Mr Ronnie Utiger, chairman of the TI Group. "We now have to try to find more sophisticated ways of increasing productivity."

Reviewing the competitive challenge, our imaginary chairman of the UK composite company might be tempted to concentrate on two main problems.

First, despite the efforts of recent years, the UK is still behind many of its main competitors in responding to the demands of today's international markets. Improvements have been greater relative to the country's own past performance than to its main overseas competitors.

"We are chasing a moving target, and they are ahead," as Mr Utiger puts it.

Second, the UK has particularly glaring weaknesses in its high technology sector. In a recent report on Britain's information technology industry, the Bide committee warned that growth in this sector, albeit running at present at 12 per cent a year, was still lower than the rate achieved by the country's main industrial competitors. The consumption of semiconductors in West Germany is roughly double that of the UK.

UK industry remains relatively inefficient at turning good academic ideas into workable products, and it seems happier to sit on its cash or to splash it out in acquisitions than to plough money into research and development.

The recent surge of UK takeovers in the US—more than $12bn has been committed by British companies this year—illustrates this tendency to rely on acquisitions at the expense of organic growth; and it may well show the limitations of such a policy—the City widely expects some of the purchases to turn out to be duds.

Indeed, the message that our composite chairman might be delivering at this moment is that the shakeout of the last few years has done little more than establish a base for new growth. The next step is for industry to work out how to respond more aggressively to the opportunities delivered by new technology.

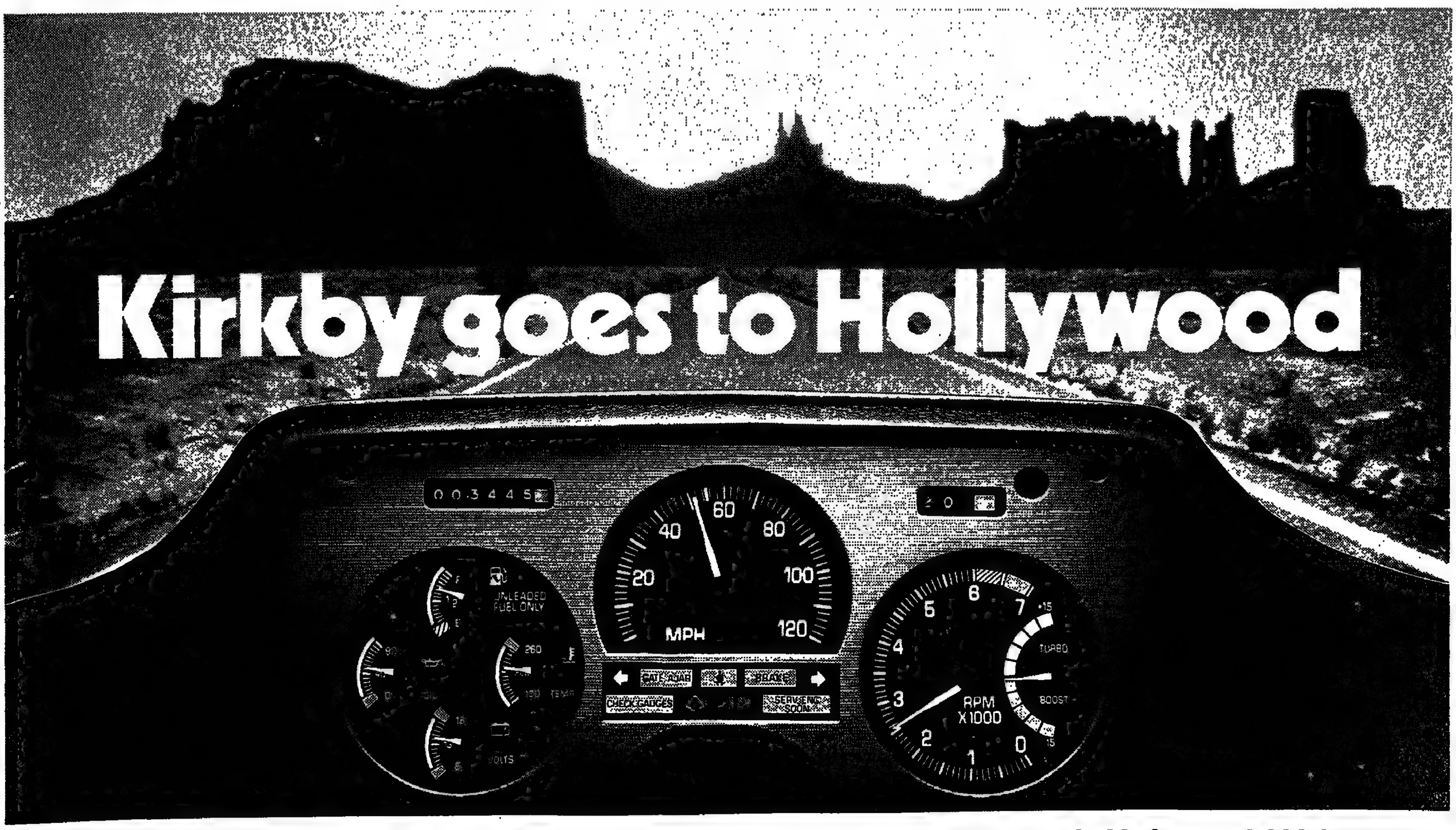
What's so special about this impressive new electronic instrumentation in America's latest Pontiac Sunbird you may ask? The answer is it's designed and built here in Britain. And, what's more, represents a record export order for one of Britain's hardest hit areas of unemployment.

The area is Kirkby in Liverpool. And the success belongs to Delco Electronics. As well as being Kirkby's biggest employer, Delco Electronics is one of General Motors' most successful British component manufacturers.

To land the £6.8 million annual contract for 140,000 of these Kirkby designed, Kirkby marketed and Kirkby built instrument clusters, they had to face and beat some of the *toughest European, Japanese, Canadian and US component* manufacturers. And judging by other US interest being shown, more export orders and business opportunities for Kirkby could be on the way.

But export success is nothing new to Delco Electronics. At least one of their wide range of components is fitted to virtually every car produced in Western Europe. And some 70% of their business contributes to the total of more than £100 million which GM's British component manufacturers *together earn for Britain each year. So our continuing* investments here – in new robotics, laser technology and computerised vision systems allowing even tighter quality control – are really paying off. Not just for us. But for employment-hungry Kirkby. And for Britain.

GM



General Motors. The name behind a great British family.

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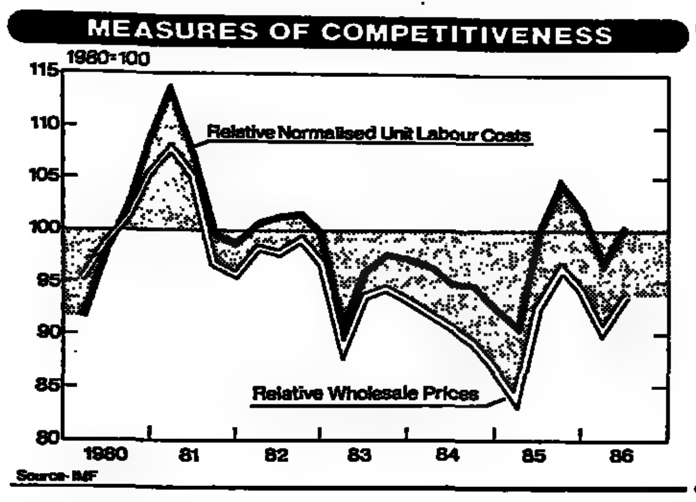
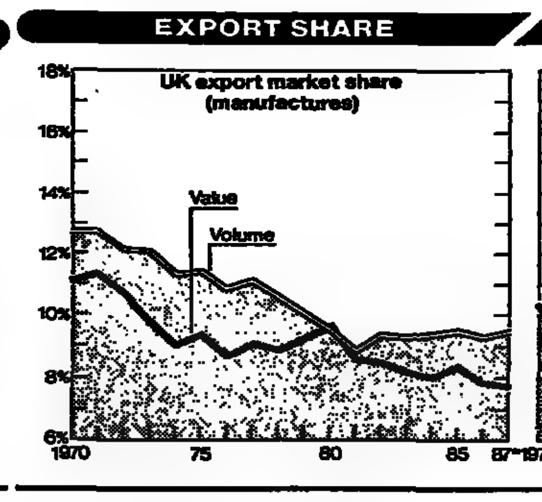
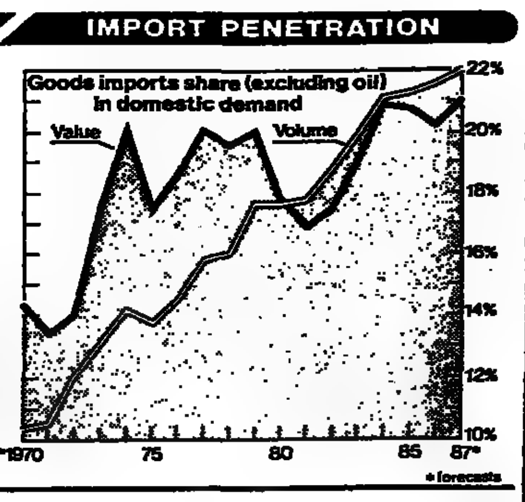
UK Industrial Prospects 2







Economic prospects

Reflections of uncertainty

FROM ONE perspective the picture is of an economy set for a rebound in output growth, a recovery in its share of expanding world export markets, a long-awaited downturn in unemployment, and subdued inflation. From another, it is one of a temporary boom propelled by unsustainable growth in earnings, consumption and imports, once again threatening the "external constraint" which haunted policymakers in the 1960s and 1970s.

Those twin images of optimism and gloom reflect (albeit in oversimplified terms) a degree of uncertainty over Britain's medium-term economic prospects which has rarely been greater.

As political leaders enter what the pundits insist will be a general election year—June or October are the favourite months—the contrast in some respects explains itself. Mrs Margaret Thatcher intends to go to the polls claiming the longest economic recovery in the post-war period. Her opponents in the Labour Party and the SDP-Alliance charge that the boom hides a sharp deterioration in Britain's underlying economic performance.

The debate, however, is not just about politics. The collapse in the oil price last year, coinciding with the peak in Britain's production, has deflated the North Sea cushion under the economy much faster than anyone could have expected.

The focus is now on those sectors of the economy—manufacturing and tradeable services—whose weakness has been blurred by net exports of oil and gas worth up to £8bn a year.

Mr Nigel Lawson, the Chancellor, and Mrs Margaret Thatcher, Prime Minister: claiming the longest economic recovery of the post-war period.

A sustained trade position will depend on a strong supply response from British industry to the expected upturn in world economic growth and trade

Some economists share the official view that the juxtaposition of sterling's sharp depreciation last year and stronger world economic growth in 1987 will begin to reverse the long-standing decline in Britain's non-oil industrial base.

A decline of 15 per cent in the pound's value against the currencies of its trading partners is seen as enough to recoup the loss in competitiveness caused by higher earnings growth in Britain than elsewhere. Over time—perhaps two or three years—it might also be sufficient to allow non-oil exports to plug the gap in the trade balance left by lower oil prices.

Stronger exports would also help fuel the rapid recovery in corporate profitability which has characterised the current economic upturn. In 1985 the rates of return earned by companies outside the oil sector were the highest since 1973 and were more than double the level of four years earlier, an improvement which continued last year.

The upturn in manufacturing output over the last few months, and a revival of exports after the stagnation in mid-1986, are taken as evidence that industry is already responding to the opportunities.

It has been accompanied by a revival in the rate of productivity gains after the slowing during earlier part of 1986. The Government can now claim that since 1979 the average annual growth in manufacturing productivity has, at 3 per cent, recovered to the levels of the 1960s.

Against that background Mr Nigel Lawson, the Chancellor, forecast in November's autumn statement that after economic growth of 2.5 per cent in 1986, output could be expected to rise by 3 per cent this year. In parallel Mr Lawson predicted at least a partial shift to a more sustainable pattern of growth, with a rebound in exports as well as in consumer spending contributing to higher output.

That short-term scenario looks entirely plausible. Outside forecasters are not quite as optimistic, but the consensus is that output in 1987 will grow by just over 2½ per cent, with exports rising by close to 4 per cent.

Inflation, which the Treasury predicts will remain below 4 per cent, is more generally expected to be around one percentage point higher than that by the end of the year, but few are predicting a prices explosion.

It is with longer-term trends that the pessimists are most concerned—and above all with the pace of increase in average earnings and unit costs relative to that of competitors, and the danger which that implies for Britain's trade position.

The most immediate and visible problem is that after several years when Britain recorded comfortable surpluses on the current account of the balance of payments there is now the prospect of a sizeable deficit in 1987—the first since 1979.

The concern over that trend has been behind sterling's recent vulnerability on foreign exchange markets and the forecasts of many economists that further *crises of confidence may be inevitable*.

The Treasury's view is that the gap will be around £1.5bn and, crucially, will be temporary, reflecting the inevitable lags before trade volumes fully adjust to the pound's depreciation.

The consensus among forecasters is that the current account deficit may be double the official projection this year, and that it may well be a constraint on the economy for several years.

Perhaps the most gloomy is the National Institute for Economic and Social Research. It is predicting a deficit of over £5bn this year and a further £7bn shortfall in 1988. The corollary would be renewed pressure on the upturn, which would bring a significant acceleration in the inflation rate.

At the heart of such pessimism is the recent performance of imports and the erosion of British competitiveness by much faster earnings and unit costs growth in Britain than in any of its major competitors.

The consumer boom, which was the main engine of growth in the economy last year and will play a major part in the unexpected expansion during 1987, has generated a massive surge in imports. In recent months the volume of imports has been rising at an annual rate of about 10 per cent, with a far higher figure for imports of consumer goods.

The trend is not new. The share of imports in domestic demand has doubled from the 10 per cent seen in 1970 to 20 per cent now, with the rise even more dramatic in sectors like cars and other consumer goods.

There are signs, however, that if anything the process has accelerated in recent months. The Treasury's own forecasts suggest that the deficit on manufactured trade will more than double from £3bn in 1985 to £7½bn this year. That will coincide with a halving of the oil surplus from £8bn to £4bn over the same period.

Part of the gap will be filled by the build-up of invisible earnings *resulting from Britain's* rapid accumulation of oversea assets at the height of the oil boom. But, as the Bank of England, warns in it latest review of the economic outlook, a sustainable trade position will depend on a strong supply response from British industry to the expected upturn in world economic growth and trade.

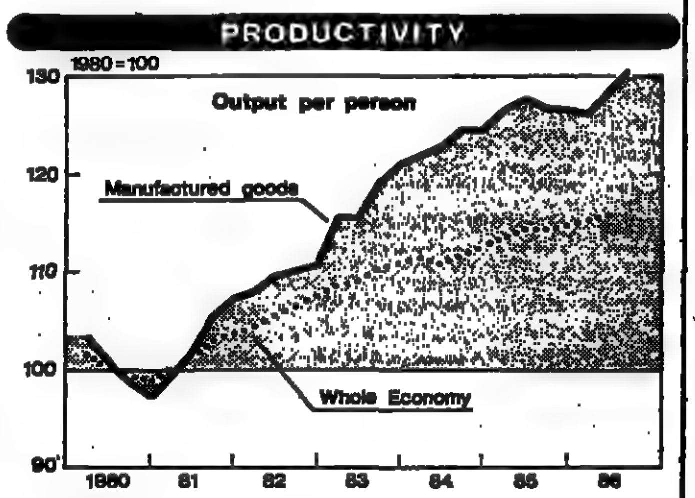
That in turn leads to the so-far intractable problem of the pace of wage and unit costs rises. Unit costs in Britain have been rising twice or three times as fast as those of its main competitors over the past few years.

Productivity performance is broadly comparable across the main industrial countries but the rate of earnings growth in Britain has fallen much less than in its competitors, despite unemployment much higher than the OECD average.

The pound's recent devaluation has offset much of the erosion in competitiveness of the past few years. That recovery will be reversed, however, unless *earnings begin to respond* to lower inflation.

The Bank of England's assessment last month outlined what it termed "the great opportunities" presented by a more competitive exchange rate, faster domestic and international growth and relatively low inflation. It then warned that those opportunities would be thrown away unless industry gets a grip on its costs.

Philip Stephens



Securities

Commission rate cuts herald shake-out

AFTER FIVE YEARS of booming stock markets and soaring commission incomes, 1987 looks like becoming the year of belt-tightening, if not of a major shake-out, amongst the UK stockbroking, market-making and integrated securities firms.

The effects of the Big Bang deregulation of the market on October 27 are starting to bite. Commission rates have been cut ferociously and the proportion of deals done directly with market-makers has been higher than expected.

The re-negotiation of commission rates with the abandonment of the Stock Exchange's minimum commissions scale was left to the last possible moment before October 27. All the brokers and large institutional investors were looking to each *other for a lead*.

In the end such a high degree of consensus was achieved that some institutions suspected (wrongly) that a commissions rate cartel had been covertly re-imposed by the leading stockbrokers. The standard rate of commission for the larger institutions, which guarantee a particular broking firm £150,000 to £250,000 in commissions annually, has been set at 0.2 per cent on all agency deals. Smaller institutional investors, and those that are continuing to spread their commissions around widely, are paying typically 0.25 per cent.

These rates are being undercut by the smaller agency brokers who, lacking a strong research department, are grateful for any institutional business they can pick up. Also a few larger institutions have been able to negotiate a discount on deals of more than £1m on which even the pre-Big Bang commission was below 0.2 per cent. Some are also being given credits, offsettable against commission, for dealing directly with the market-making arms of the same firms.

Pre-Big Bang, the average rate of commission on institutional deals in equities was slightly below 0.35 per cent. Drawing on the example of New York after May Day in 1975, most people expected that rate to be cut initially by only a small amount, between a fifth and tenth. But, instead of the gradual process of discounting in New York, rates in London have been pared to the bone immediately. Even commission rates for individual investors have been cut slightly by most firms—and few firms have dared raise them except for those clients who insist on *a full advisory service*.

The average rate of equity commission has thus fallen from 0.58 per cent in 1983 and 0.43 per cent in the period immediately prior to Big Bang to about 0.26 per cent now.

What has compounded the problem is the high proportion of deals, about 45 per cent by value, in which investors are bypassing the stockbroker and going directly to the market-maker. Few individuals are using this option but several of the largest institutions are relying on *it for 60 per cent of their* transactions by value. In addition, about percentage points of the 55 per cent of agency business are accounted for by cross-overs between clients which are counted as two transactions although they bypass the market-makers.

In the Government securities (gilts) market, the proportion of deals by value done on a traditional agency basis is only 13 per cent. Most of these are accounted for by individual investors.

Consequently the newly-integrated securities firms are having to rely more on their market-making activities, which means primarily their spread. (Few are confident of making large pro*fits from reading the market* correctly). Again the evidence since October 27 suggests a squeeze on profits as a result of the upsurge in the number of market-makers in both equities and gilts.

For the 62 most actively-traded "alpha" securities, the average "touch" (the spread between the best offer and best bid price in the market) for a £250,000 transaction is about 0.87 per cent. Before Big Bang, the average touch in this size was about 1.1 per cent. For beta securities, *the average touch for* a £60,000 transaction has been 1.75 per cent, slightly less than pre-Big Bang. For gamma securities the average touch for an £11,000 transaction has been 3.1 per cent, again slightly lower than pre-Big Bang, thus dispelling fears that the market in small stocks would dry up.

Some of the losses from price squeezing have been offset by greater turnover. Equity turnover in November (excluding turnover between market-makers which has soared) rose by 40 per cent compared with October, even though there were three more trading days in October. The underlying increase in equity turnover is probably close to 50 per cent.

In gilts, however, there has so far been no perceptible increase in turnover at all.

The increase in turnover is not enough to avoid the moun-

Continued on Page 3

Takeovers

The merger wave keeps rolling

OVER THE past three years the ownership and management of a substantial slice of British industry and commerce has changed hands in the most remarkable takeover wave seen since the late 1960s and early 1970s. Will it continue in 1987—and, and, more importantly, will it actually improve the performance of the sectors most affected?

The first question is perhaps easier to answer than the second: the takeover boom seems likely to continue well into the new year, provided that the bottom does not fall out of the current bull stock Market.

The rising market has been a central factor behind the merger wave, enabling companies with a strong City following and high price earnings ratios to issue large quantities of paper to pay for the acquisition of more lowly rated businesses. Other factors have also played a part: several years of strong profits growth have left companies with strong balance sheets, and there is a sheer element of fashion—both on the side of management and of investing institutions—in the current wave.

Previous merger booms—in the 1960s/early 1970s and in the 1920s—also coincided with—or were the products of—strong bull markets, and each of those ended abruptly with plunging stock markets. Jeremiahs argue that the same could happen again.

But whatever the outlook for the equity market, the current merger wave still seems to have a lot of life in it. Government statistics shew that completed takeovers soared to a total value of £6.3bn in the second quarter *of last year—almost as much as* the £7bn grand total for the whole of 1985—before falling back to £2.8bn in the third quarter.

But that huge second quarter figure includes the two biggest UK takeovers of the current wave—the £2.6bn acquisition of Distillers by Guinness and the equally valuable swallowing of Imperial Group by Hanson Trust. The third quarter value figure was still the second highest on record, while in volume terms—with 207 completed acquisitions—it was the highest since the fourth quarter of 1973, towards the end of the last boom.

A succession of failed hostile bids last summer—such as Dixons' tilt at Woolworth and Siebe's for APV Holdings—suggested to some analysts that the boom might be past its apogee, with shareholders adopting a more critical approach to predators. But that did not prevent a rash of major new bids in the autumn, most notably the £1.1bn offer by BTR for Pilkington Brothers, the glass manufacturer.

This last battle may prove a crucial test of current sentiment towards the merger boom by the City institutions, for the two protagonists are very different companies. BTR, which has grown rapidly by acquisition, is an industrial holding company with interests ranging from valves to Pretty Polly Tights. Pilkington has made a conscious policy of sticking to its traditional business, glass-making, and not diversifying. It is a policy which has turned it into the world's leading flat and safety glass manufacturer.

Pilkington is portraying the clash as a vital for the future of British industry, pitting a company which has won this global leadership through a policy of long-term investment and R and D against one which, it claims, is concerned mainly with short-term financial ratios. That may not be fair to BTR, but by seizing the moral high ground Pilkington has put the onus on the aggressor to show just what magic ingredient it could provide to improve the glass company's performance.

Its approach may capture a wider change in sentiment towards bids. In a recent speech Sir Gordon Borrie, the Director General of Fair Trading, raised the question of whether the burden of proof should be on the predator company to show that a takeover would act in the public interest.

Certainly, the lesson of history is that many takeovers are failures, in terms of the subsequent performance of the merged businesses. Some 30 years of academic research on both sides of the Atlantic into the issue has produced a broad consensus that only about half—or even less—of all takeovers can be characterised as successful.

Takeovers soared to a total value of £6.3bn in the second quarter of last year, almost as much as the £7bn grand total for the whole of the previous year.

There is some evidence to suggest that the more related the two merging businesses are, then the greater the chances of success, but even this argument has now been heavily qualified for certain industries.

The current UK merger wave is notable for being concentrated in particular sectors and for largely bringing together companies in related businesses, which might suggest a more than average chance of them succeeding.

Government statistics show that more than half of the total takeover money spent on independent companies in 1985 went on the retailing and food, drink and tobacco sectors, which also accounted for one third of the total in the first nine months of 1986. How successful are the largest of these proving to be?

Any assessment has to be very heavily qualified. The real benefits or drawbacks of these marriages are likely to take years to show through, while in the short term the true picture can be disguised by creative accounting to suggest that all is proceeding wonderfully.

The jury is certainly still out on three of the biggest retailing takeovers. Burton appears to be proceeding moderately well with its £560m acquisiton of Debenhams, the department stores group which had previously spent years with its profits going nowhere, but Burton is still in the early stages of revamping the chain. In the case of the agreed merger between Sir Terence Conran's Habitat-Mothercare and British Home Stores, it has yet to be shown that the resultant animal, named Storehouse, has given a genuine lift to BHS's lacklustre image. And the amicable merger between food group Asda and MFI, the furniture chain, has so far not shown that two and two can equal more than four.

In the food and drinks sector, Guinness acquisition of Distillers seems likely to prove beneficial—unless the current Department of Trade inquiry into Guinness's affairs proves extraordinary explosive. Distillers had been criticised for years in the City for its unexciting performance and had long been viewed as a potential takeover target. Squeezing extra performance from it should therefore not be too difficult.

Hanson Trust's takeover of Imperial Group has been followed by the dismemberment of that company, with parts of the conglomerate going to sectoral specialists: restaurants and hotels (the Monopolies Commission willing) to Trusthouse Forte, snack foods to Daigety and beer to Elders IXL of Australia. It might be argued that each of these businesses stand a greater chance of progress linked to a specialist owner than under the Imperial umbrella, and that Hanson's often criticised reallocation of assets is performing a useful economic function. Whatever the truth, it seems likely that Courage, the Imperial brewing business, will get a shot in the arm under the ownership of the highly ambitious Elders group, a newcomer to the ranks of the British beerage.

Certainly, the fear of a takeover by Elders last year helped concentrate minds at Allied-Lyons, the food and drinks group, and has contributed to a sharp increase in profitability. That is evidence that takeovers, or the threat of them, can be economically beneficial. The problem remains in identifying the winners and losers amid the stream of inflated bid rhetoric.

Martin Dickson

TAKEOVERS WITHIN THE UK

		Expenditure £ million			
	No. of co's acquired	Total	cash	ordinary shares	preference shares and loan stock
1981	452	1,144	775	338	31
1982	463	2,206	1,282	701	223
1983	447	2,344	1,026	1,261	57
1984	568	5,475	2,946	1,837	690
1985	474	7,090	2,857	3,708	525
1986 1st Qtr.	108	2,092	348	1,730	22
2nd Qtr.	128	6,379	627	4,023	1,730
3rd Qtr.	*207	*2,831	*736	*1,499	*597
1986 1st-3rd Qtr.	443	11,302	1,703	7,252	2,349

*3rd Quarter figures provisional.

Source: CSO Financial Statistics November 1986, Department of Trade and Industry

Quality of management

Some signs of improvement

THE NUMBER of working days lost in manufacturing industry as a result of strike action has plummeted in the last few years, turning the spotlight which has for so long focused on poor industrial relations as a cause of Britain's economic decline towards the quality of the country's managers.

So what is the quality of British management today? "Poor but getting better," was the general conclusion of 12 captains of industry interviewed for a recent study sponsored by the British Institute of Management. Yet, while British managers are improving, "so are the competition," according to the competition.

The BIM's study, "Competitiveness in UK Manufacturing Industry" by management consultant Anthony Ovenden, concluded that the "picture is not one of unrelieved gloom." Nevertheless, it pointed to two areas of managerial deficiency in Britain. The first was "lack of a dynamic driving force in the business, to instil enthusiasm, promote changes and new ideas, and set targets to aim at."

The second was "weak professional skills and limited managerial ability; management development and training is inadequate, and managers are, in general, insufficiently outward-looking and knowledgeable about techniques and methods in use elsewhere," it concluded.

Despite increased attention being given to management training both inside and outside companies, many British managers still gain their management education by accident. And, while ideas on management education have been slow to change, the market place has not.

"A young manager in the mid 1950s, having been steeped in the conventional British manufacturing wisdom over the previous 10 years might now be a board director," Ovenden's report says. "During this single working life what might reasonably be termed a business revolution has taken place in this country. Not only have computers, calculators, NC tools, word processors, photocopiers, etc. affected the internal workings of business, as they have in all other manufacturing industries throughout the world, but also the market place itself has been dismembered, extended and reassembled along quite different lines, with a great deal more external competition."

How ill-equipped, in any formal sense, Britain's managers are to meet this challenge was made clear last year in a speech by Paul Channon, Secretary of State for Trade and Industry. Only 7 per cent of Britain's managers have a university degree. Another 7 per cent have membership of a professional body as their highest qualification and only 2 per cent have any kind of business degree or management qualification, he reported.

The first of two reports expected later this year is being produced by Professor Charles Handy, formerly of the London Business School, under the auspices of the Manpower Services Commission, the National Economic Development Office and the BIM. Due to be published at the end of April, it will take a detailed look at the state of management education in the UK, Japan, the US, West Germany and France.

The comparative aspect is important, especially in the light of the view held by some observers that there is no proven link between management training and company performance.

It might be true that you cannot prove that increased training produces better managers, concedes Dr John Constable, former BIM Director General and former head of the Cranfield School of Management. "What you can prove is that managers in the US, France, Germany and Japan are better educated. They are better selected and they are better trained in management. The economic performance of those countries is also quite good."

Dr Constable points out that the countries being studied in the Handy report do not have a uniform system of management education. Each has adapted its management training to suit its own culture.

The current state of management education in Britain is the subject of the second study which will be published this year. This study, which has been carried out by Dr Constable and Mr Roger McCormick of BP, is sponsored by the BIM and the CBI, and is being supported by the Department of Education and Science and the Department of Trade and Industry.

The report will look at the demand for management education by both companies and individuals. It will also look at what management education is being supplied by academic institutions—universities, polytechnics and institutes of higher education—by private sector institutions and by companies themselves.

The report, Dr Constable says, will provide a far more comprehensive picture than any other of the real state of British management and education. "We would like to remove, if we can, the general accidentalness of it all," he says.

The extent of that "accidentalness" will be made clear by yet another report due out in 1987, this one also sponsored by the Manpower Services Commission. The results of the study were outlined by Professor Alan Mumford of the International Management Centre, Buckingham, at a conference in Harrogate last year.

The study, based on interviews with 144 directors in 41 companies, looked at what management training had been used to prepare managers to become members of the board. Most directors the study discovered, had reached their positions and learnt their skills by accident.

So what difference will all these reports make? It is, after all, now 24 years since the Franks Report, which established a framework for British business schools. That report called for 2,000 MBA graduates a year. Instead the number is around 1,500, and of those only 1,100 are UK residents.

Is there any reason why these reports should have any more impact? "There is a reason," says Dr Constable. "I think one could argue that we have now hit ourselves over the head so often that we have now actually felt it and there is a desire to do something about it."

Michael Skapinker

UK Industrial Prospects 3

Labour

Jobs will be the election issue

BAT INDUSTRIES, the diversified retailing and tobacco group, leased a derelict warehouse in Liverpool in 1980 and converted it at a cost of £1.4m to small workshop units, providing management advice and share services such as typing. By mid-1986 the centre was employing 400 people in 80 businesses.

Buckhaven, a small Scottish seaside town, had by 1983 seen its local coalmines close and its harbour—once the base of its fishing fleet—silt up. As a result, local male unemployment stood at 40 per cent. With the help of £3,000 from the Manpower Services Commission, the local kirk converted a redundant church building. The initiative has since then created some 900 jobs in projects ranging from costume production to lighthouse refurbishment, with a total turnover of £3m.

Such moves, quoted in a new study*, are precisely examples of the job-creating entrepreneurial spirit the Government wishes to foster. When set against an official unemployment level of more than 3m, such moves and those of agencies such as British Steel (Industry) and its counterpart in coal, are marginal. Taken together they illustrate likely labour prospects in the coming months.

"Best guess" forecasting suggests a labour market which is at once stable—unemployment is likely to remain at roughly its current level—and changing. (Shifts in employment patterns are likely to continue). Ministers are becoming increasingly hopeful however that the tide is turning on unemployment, even though the Opposition is much more sceptical, refusing to accept that a few months' marginally better figures represents a new trend after years of increase.

But some indications do look encouraging. Lord Young, the Employment Secretary—the first minister in that job in this Government whose primary interest has been employment rather that industrial relations—*is pointing with pride to* a downturn in long-term unemployment: a reduction of 7,000 in the most recent quarterly figures, which he and his team are certain will be matched, if not beaten, when the figures for the three months to the end of December are published.

Restart, the Government's programme of interviewing those out of work for more than a year with the aim of laying out for them the options available, is seen by ministers as the primary reason for this change in direction in the total of long-term unemployed—the largest quarter downturn since the early 1970s.

Such change in unemployment is likely to continue to be paralleled in the coming year by change in employment: more part-time work, more self-employment, more women working. All the labour market institutions and practices will continue to have to respond to these changes. Industrial relations practices, for instance, seem likely to continue to focus, at the micro level, upon agreement and upon consensus. The impact of disputes cannot, however, be disregarded. Down in number, coverage and impact they may be, but the complex teachers' dispute makes it starkly clear that the likelihood *of strikes simply cannot be written off.*

Trade unions, as important labour market institutions (though with unionisation levels down to about 40 per cent, not as important as they were), are starting to respond to these labour market changes, and that response will accelerate in the coming year.

Two events early in 1987 will illustrate both the challenges unions have to face, and their renewed intentions to do exactly that: a rally by the largest union, the TGWU transport workers, at London's Wembley conference centre, with the declared aim of launching the union's radical new campaign to try to start to come to terms with the developing two-tier labour market, by organising temporary workers, and an international union conference aimed at trying to increase (realistically, to start) union membership within IBM, the word's largest computer company.

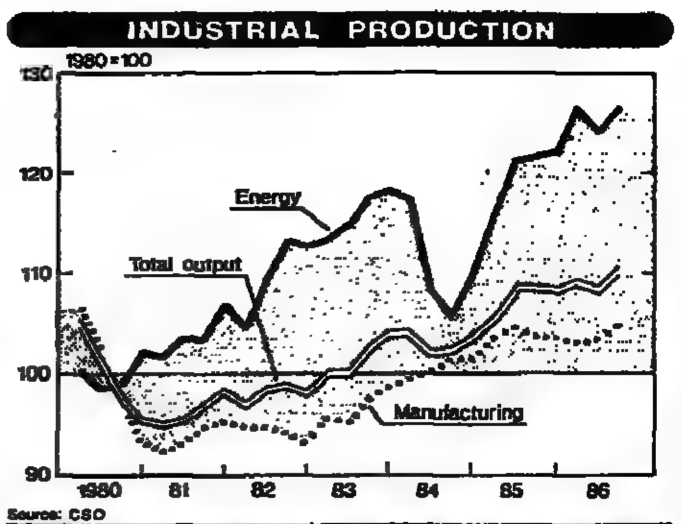
Both will be an uphill struggle, though the fact that they are happening at all is an indication of some union dissatisfaction with aspects of the labour market. The Government, too, which now offers a huge and near-bewildering range of employment initiatives, pumped through the MSC in the main, will also provide further evidence of its dissatisfaction with particular aspects of the labour market in the coming months.

It is still sounding views on its proposals on profit-related pay, part of its drive for greater labour market flexibility. Secondly, though the TUC believes it has so far bested Mr *Nigel Lawson, the Chancellor,* on the issue, ministers are likely to continue to press ahead with their criticisms of national pay bargaining, and their advocacy of relating geographic pay and employment patterns more closely. Thirdly, the Government looks likely to set out further proposals for trade union reform (though many of the likely changes, especially on balloting practice, are not as central as its previous pieces of union legislation—nor perhaps as likely to win for the Conservatives popular electoral advantage).

If the general election does come this year, unions and industrial relations may not be much of an issue. What is clear is that employment and unemployment cannot fail to be. (Labour, in preparation, is to launch fully its new jobs package in February). Unemployment is consistently seen by poll samples as the majorproblem facing Britain. Many of those who have remained in work have done well, however, with pay inreases running ahead of inflation. Unemeployment is still the overriding problem: it will need a good deal more Buckhavens, and many other moves, before its grip relaxes significantly.

Phillip Bassett

**Job creation in the UK*, by G. Todd. OECD/Economist, 40 Duke Street, London, W1A IDW. £25.




Assembly line workers at Nissan Motors at Washington, Tyne and Wear

Securities commission rate cuts

Continued from Page 2

ting pressure on the smaller and middle-range agency brokerage firms which lack a strong retail customer base outside London. The largest agency broking firm, James Capel, says that its share of total agency commissions has increased from the 7 per cent it enjoyed pre-Big Bang. Its figures have been inflated by a large restructuring it carried out in November for Postel fund management, with which it has close commercial links.

Some brokerage firms are hoping to renegotiate higher commission rates with their main institutional clients after a three or six-month period. But if the institutions resist, the volume of research material and number of telephone calls they receive from brokers will certainly fall quickly, as the brokers *lay off staff*—or at least slash salaries.

The investors and users of the securities markets are certainly reaping the benefits of deregulation and the increase in capacity and competition in the securities industry. But the outlook for most firms is not optimistic.

Clive Wolman


In Glamorgan, South Wales, engineering students receive instruction at the workshops of the Technical Training School at RAF St Athan. It is one of the largest employers in the area

Transport

Hauliers look for accord, shippers for a Euro-rudder

WHEN THE transport industry looks back on the events of 1987, the most important development may well turn out to have been the acceptance by national parliaments of the Single European Act, which provides for more EEC issues to be settled by majority voting in the Council of Ministers.

If it is implemented and acted upon, the Act could lead to a big change in attitudes towards the development of a Community transport policy—one of the major unfulfilled aims of the Treaty of Rome.

Progress towards a common policy has been held up for 30 years by the use by various member states of the national veto, with the result that widespread differences in legislation continue to hinder both internal and external trade.

Some progress has been made, notably as a result of the agreement to liberalise the internal Community market by 1992. Permits for road haulage across national boundaries are to be increased by 40 per cent per year, and customs formalities are to be gradually reduced.

Mr Garry Turvey, director general of the Freight Transport Association, said operators would be pursuing liberalisation in a number of other areas, however, including cabotage—the carriage of goods within national boundaries.

The FTA will also be seeking fiscal harmonisation, particularly in the field of licensing taxation for road hauliers, where there are enormous discrepancies.

The European Commission is expected to produce a paper on taxation early in the New Year, but it is hard to see how it will overcome a situation in which a British 38-tonne lorry is taxed three times as heavily as a similar vehicle operated by a Belgian company and 12 times more than in Denmark.

The Commission is also expected to publish shortly a report on the standard of roads and bridges in the UK compared to the rest of the Community.

The report is expected to conclude that the 38-tonne limit on lorry weights in Britain could be increased to match the 44-tonne limit in operation elsewhere in the Community. Government agreement to heavier lorries is thought to be unlikely in advance of a general election, however.

The Community's inability to develop a common approach to transport has applied equally in the past to the maritime sector—but there is at least a glimmer of hope that 1987 will mark the beginning of moves towards a common policy.

Measures to reduce cargo reservation and unfair pricing are already under discussion, and the Commission is likely to produce further proposals as the year passes.

Shipowners will be looking to the Commission for help in reversing the decline of the industry in the face of worldwide overcapacity. The world fleet has fallen by 4.6 per cent since 1982, and in the UK, the General Council of British Shipping has forecast that the number of UK owned and registered merchant ships could fall by more than 30 per cent over the next ten years.

Much interest in the UK will focus on the future intentions of Peninsular and Oriental Steam Navigation, the country's biggest shipping company, following its takeover of European Ferries.

There is little doubt that European Ferries' Townsend Thoresen ferry business will continue to be a market leader, but it is not yet clear what Sir Jeffrey Sterling, the chairman of P&O, has in mind for the Felixstowe and Larne port operations which came with the ferries.

Fears have already been expressed in Southampton and Tilbury that P&O may transfer the operations of its OCL containership subsidiary to Felixstowe. *In addition, the port* of Ipswich is known to be concerned that it may lose the business of North Sea Ferries, a P&O joint venture with Nedlloyd of the Netherlands.

The coming year may also prove something of a watershed for Sealink UK, the ferry subsidiary of Bermuda-based Sea Containers. Sealink suffered a serious strike recently over the *rationalisation of its Channel* Island services, and was partly blamed by Sea Containers for the subsequent indefinite suspension of dividends.

Mr James Sherwood, the president of Sea Containers, apparently remains determined to bring Sealink to the market as soon as possible, however.

For suppliers of transport equipment, 1987 looks like being a mixed year. World overcapacity in the shipbuilding sector will continue to cause losses almost everywhere, particularly if South Korea continues its attempts to expand market share.

European shipbuilders will be hoping for continued help from national taxpayers, though some, including British Shipbuilders, fear that revised EEC subsidy ceilings due to be implemented in the New Year will prove insufficient to cover costs.

Railway equipment suppliers will have their eyes on major mass transit system contracts expected to be available in Taipei and Shanghai, for which there will be international competition between UK, French, Japanese and other companies.

In the UK market, *British Rail Engineering* (BREL) and Metro-Cammell will be in competition for an order for around 300 passenger carriages destined for the east coast main line—for which British Rail has already ordered 31 electric locomotives from GEC Traction.

British Rail is also expected to place a large order for diesel and electric multiple units to replace ageing rolling stock on provincial services.

Mr David Gillan, director of the Railway Industry Association, said equipment suppliers were in "a more healthy situation than for some time" because of the Government's willingness to approve BR investment projects which meet commercial criteria.

Mr Gillan said there was evidence, however, that the Government's squeeze on subsidies to BR was reducing expenditure on track and signalling, to the detriment of suppliers such as GEC, Westinghouse Signal, *British Steel, Henry Boot Railway* Engineering and Pandrol.

Suppliers are also worried by the possibility that BR may buy diesel locomotives from General Motors of the US, or in Western Europe, rather than from UK suppliers such as BREL, GEC and Brush.

On the roads, deregulation of bus services has created a huge market for mini-buses carrying up to 25 passengers. Ford, one of the major suppliers, estimates demand at 20,000 vehicles in the next four years in the 15 and 21 passenger sector alone.

Other major beneficiaries of this development have been Mercedes-Benz, Volkswagen, Freight Rover and specialist manufacturers such as Optare, which operates from a former Leyland Vehicles plant in Leeds.

Production of traditional double-deck buses has virtually ceased, however, with serious consequences for major producers such as Metro-Cammell-Weyman, Hestair-Dennis and Leyland Buses.

Kevin Brown

Trade

Hopeful signs for non-oil exports

ON THE SURFACE it looks as though the outlook for Britain's exporters ought to be rather good in 1987. Not only has the pound depreciated sharply against leading European currencies; *the outlook for world* trade generally is improving in the wake of falling oil prices.

In its latest study of world trade the General Agreement on Tariffs and Trade (Gatt) noted *that the volume of world trade* grew at an estimated rate of only 3 per cent in the first half of 1986. This was rather less than many economists had predicted and Gatt says it is still unclear *whether the volume picked up* in the second half of the year.

However, there is still a widespread supposition that international trade volume should start to pick up more sharply as the *effect of lower oil prices* takes hold. That would make for a positive background for UK exporters, especially as they have become more competitive in price terms because of the *decline in sterling.*

Most economists are thus forecasting a fairly substantial increase in UK non-oil exports in 1987. Those at the Confederation of British Industry believe *that the volume should grow by* around 3¼ per cent compared with 1 per cent in 1986 with a further acceleration of 3¾ per cent in 1988. According to Mr Walter Eltis of the National Economic Development Office (Nedo) the fall in the exchange rate means that the UK can anticipate "an extra 1 or 2 percentage points of export growth additional to the 3 per cent that we would expect anyhow."

What is expected to help the UK is the relatively buoyant economic outlook for Europe, which takes the bulk of British exports. The depreciation of sterling against the D-Mark in 1986 has far outweighed Britain's relatively higher inflation and sharper increase in unit labour costs so that "in comparison with West Germany we're very much more competitive than we have been in any of the past five or six years," according to Mr Eltis.

However, these relatively optimistic forecasts are tinged with a certain number of qualifications and doubts.

First, it is clear that demand for imports in developing countries is likely to remain relatively weak in 1987 as the problems associated with the debt crisis continue. That will make life difficult for exporters who rely on construction contracts and sales of capital goods to the developing world.

Equally, the general view is that the prospects for increased sales to the US and Japan are not all that bright. Despite the strength of the yen which should make foreign products more competitive Japan is expected to be slow in opening its markets to imports, while UK exporters to the US face the double difficulty of selling into a market whose currency is way below its peak of early 1985 and whose government still has to bring its trade deficit down to a manageable level.

Given the fact that the US is now a large net international debtor, there will be a need at some stage for it to run a "substantial" current account surplus on its balance of payments, according to Mr Julian Target of the CBI. This could have a seriously dampening effect on the world economy and on the volume of international trade at some time in the future, though the risk of any impact in 1987 is currently regarded as slight.

The main question for Britain's export industry is how far it will be able to benefit from the competitive advantage in which it now finds itself. Though he also expects a strong increase in British exports in 1987, Mr Andrew Bain, group economic adviser of Midland Bank, warns that "a short term movement in exchange rates is not going to get people to change strategic business decisions."

If they do not do so, the gain in exports expected for 1987 will be more in the nature of a windfall than the start of a long term recovery of Britain's export industry. What industry needs to do, Mr Bain argues, is to use the extra earnings generated by higher sales abroad to secure a stronger long term position. "The resources that have gone into investment in research and development, trading and marketing have been too low generally in British industry for a very long time," he says.

At this stage the prospects of such a structural change taking place are still deeply uncertain. Mr Hugo Herbert-Jones, the CBI's director for international affairs, argues that some British *industrial sectors, for example* the motor industry component sector, have made great strides forward in terms of quality and delivery.

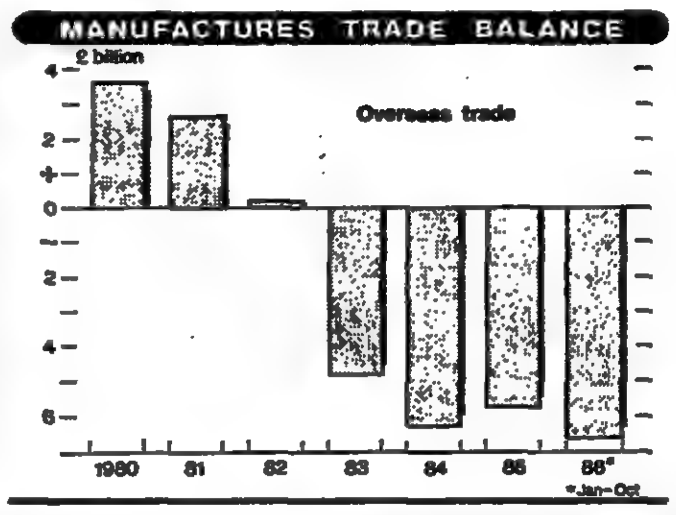
But he adds that business has become more reluctant to put effort into export marketing after its experience in the US after the dollar came close to parity with sterling. Extra investment made in the US market at that time came to nothing as the dollar then fell back sharply. Many firms that tried to forge new outlets in the US market burned their fingers, he says.

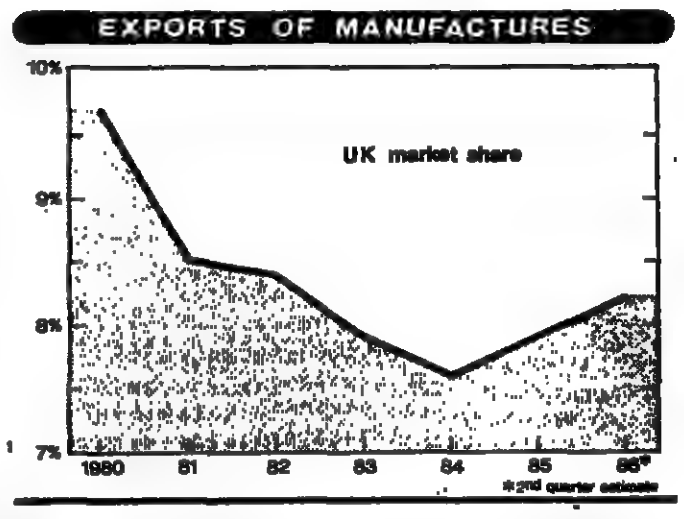
What is needed is therefore a greater sense of stability—which is one of the main reasons why the CBI supports UK entry into the European Monetary System. Given the prospect that UK labour unit costs will continue to rise faster than those in Germany, there is also a need for further gentle depreciation of sterling over the longer term, the CBI belives.

In the absence of a more systematic and concerned approach to exporting the main beneficiaries of the stronger trend for UK exports in 1987 would be firms selling price-sensitive low-tech products, argues Midland's Mr Bain. He cites bulk chemicals as the type of product that should do well in 1987, as well as consumer products with a strong brand image. Hi-tech products are by contrast less sensitive to changes in the exchange rate and that is also where the structural problems of investment, marketing and product quality are at their most acute.

Many economists believe that this is an area in which Britain is moving forward slowly, but the results are not yet convincing. Qualifying his forecast for strong export activity next year, Mr Eltis says: "The big question is whether deep down something bigger might emerge, but that of course depends on behavioural changes."

Peter Montagnon





Fall in energy prices

Boon for manufacturing sector

THE COLLAPSE of oil prices in 1986 failed to provide the immediate stimulus to economic growth that the more optimistic forecasters had predicted.

Nevertheless, the benefit to industrial costs has been very marked, and has helped manufacturers to hold back price increases *in spite of the* continued rapid rise in wages.

For the industrial sector as a whole, the Department of Energy estimates that average fuel prices fell by 24 per cent in 1986, *compared with the level in* the same period a year earlier. The major component of this fall was of course the price of heavy fuel oil which fell 58 per cent in the period.

Apart from the *direct effects* of a lower oil price on industrial costs, the fall has wrought major changes in the perception of future energy prices until the end of the decade.

The most immediate effect this year has been on UK industrial gas costs, which were 8 per cent lower in the second quarter than a year earlier. After losing about 15 per cent of its industrial market, British Gas was forced to make major concessions to those of its customers with dual fired boilers (almost all on interruptible contracts). As a result the corporation has regained most of the lost sales, but at the expense of its margins. These were under pressure in the early part of 1986, because British Gas's more recent contracts with North Sea suppliers typically link gas prices to those in the oil market *with about a year's lag.*

This means that gas costs are likely to fall in the earlier part of 1987 whatever happens to oil prices, and are unlikely to rise significantly even by the end of the year.

The re-emergence of strong price competition between oil and gas in the industrial market has forced British Gas to be more responsive to those customers who can credibly switch to oil, and even to consider the possibility that some companies might consider buying new oil fired boilers, if prices remain depressed.

Coal prices have also been forced to respond to the re-emergence of competition from oil, with prices down about 2 per cent in the second quarter compared with a year earlier.

Companies would be unlikely to spend money on switching back from oil-fired capacity to coal unless oil prices remained very depressed indeed (perhaps below $10 per barrel) and seemed likely to remain low for a long time.

Nevertheless, coal prices are likely to remain under continuous pressure, not just from the generally weak state of the oil market, but because of strong competition from imports. In the late autumn, South African coal was selling in Rotterdam for about £20 per tonne, only about half the average price which British Coal is charging the Central Electricity Generating Board.

British Coal has been reacting strongly to this double pressure. It has been forced to lower the marginal price of its coal supplies to the CEGB, to combat the threat of an increased oil burn in its power stations, and it has pushed ahead with its drive to increase efficiency with impressive effect.

In the first nine months of the year, its average output per manshift worked had risen to 3.04 tonnes, an increase of 30 per cent compared with performance in the same period in 1985, and 20 per cent better than the average for 1983. Although British Coal still has a very long way to go to match performance of the better mines in the US and Australia, it continues to make progress.

In several other respects, 1986 *is likely to be seen as marking a* turning point for British energy supplies. It is the year in which the UK's North Sea oil production reached its peak, although output rose marginally in the first nine months of the year compared with the same period in 1985. The year may also come to be seen as the end of an era of rapid expansion for British Gas's domestic market.

In the short term the privatisation of the corporation is unlikely to make much difference. However, it seems probable that in the next few years the emphasis within the corporation will shift from the pursuit of market share to maximising profitability in each *segment of the market.* This could well mean higher prices for some industrial consumers to reflect the steadily rising costs of supplies from the North Sea.

This tendency will be muted so long as oil prices remain relatively depressed, and it may also be curbed to some extent by the threat of direct competition in domestic markets from oil companies which may wish to sell direct to industrial users. Direct competition in British Gas's markets does not seem imminent however, and would in any case only affect the largest consumers.

The electricity industry is also at a turning point. After years of over-capacity, it is now facing the prospect of supply shortages unless it embarks on a major *programme of building power* stations. Some ten or a dozen large new stations are expected to be made by the end of the century on the most recent projections.

If the CEGB is allowed to go ahead with the building of a family of pressurised water reactors starting with the first at Sizewell B in Suffolk, and if it can build the stations on time and to budget, it will be able to hold out the prospect of significant reductions in electricity costs in real terms over the years.

New coal stations also, should be able to exploit the advantages of improved technology and proximity to cheaper coal supplies, including perhaps supplies from abroad.

As France has demonstrated, nuclear energy ought to be able to bring important reductions in electricity prices for many years, whereas gas and oil costs are certain to rise substantially as present reserves become exhausted and progressively more expensive resevoirs have to be tapped.

The strategic advantage of electricity is, however, a long term one—its first PWR is unlikely to be producing at full load for almost a decade. However, electricity can already claim to be cheaper for heating small homes. For the industrial market, gas supplies from the North Sea seem assured until at least the first decade of the next century, after which more expensive options are likely to be neccessary.

The main uncertainties, therefore, are the timing of the next large rise in oil prices, over which Britain has very little influence, and the success of the coal and electricity industries in cutting costs over the next 15 years. The success of these efforts will have a major bearing in Britain's competitive *position in the world* when its oil has run out in the earlier part of the next century.

Max Wilkinson

Technological change

A rather patchy picture

AROUND the beginning of the 1980s, when accelerating technological change began to impinge on public awareness in Britain, it was fashionable to indulge in visions of a national economy transformed and regenerated by a new industrial revolution.

Here at last, the scenario ran, was a heaven-sent opportunity to cast off old industries in inexorable decline and build the future around innovative "sunrise" sectors in which the raw material of information would be turned into wealth by the application of unfettered human creativity.

For a brief period, the promise of economic renaissance through innovation appeared to find partial fulfilment. Brash young companies, such as Sinclair Research and Acorn Computers, soared to overnight success; increasingly frequent sightings of entrepreneurial hi-tech activity were reported along the M4 corridor and around Cambridge; and liberalisation of the telecommunications market fuelled imaginative schemes for a new generation of computerised information services and talk of nationwide electronic cable grids.

Judged against those visions, paradise has been postponed. That Britain is today in the grip of a technological revolution of some kind is indisputable. But, rather than proceeding across a broad front like some mighty wave, its impact is ragged and uneven. While some sectors and companies are moving to seize the opportunities, too many seem also to be missing or ignoring them.

Broadly speaking, the take-up of new electronic and information technologies—the most pervasive instrument of change—is most visible in the service sector, notably banking, insurance and parts of retailing. In the past year, investment in computerisation and communications systems has also been boosted by the (sometimes belated) realisation among City institutions that they simply would not survive the Big Bang without them.

In manufacturing, the picture is patchier and less reassuring. A survey by the independent Policy Studies Institute (PSI) last year found that the number of factories using microelectronics had doubled since 1981. But even so, less than a quarter of UK manufacturing output was produced using microelectronically-controlled processes, and only 8 per cent consisted of products containing microelectronics.

Another recent PSI survey found that only one in 40 UK factories was using robots, and that the total number installed at the start of 1986 was smaller than the increase in 1985 alone in West Germany. Both surveys also found that foreign-owned factories in Britain were well ahead of local UK competitors in using advanced technologies.

The recent performance of UK industry as a supplier of high-technology products and services is also a mixed one. Pharmaceuticals, chemicals and aerospace remain areas of relative international strength, but in electronics and information technology (IT) the picture is gloomy, showing a trade deficit of about £2.5bn a year.

Though there are indications that the deficit may have narrowed slightly last year after several years of steady deterioration, this appears due more to the growth of on-shore manufacturing by foreign multinational companies than to the contribution of indigenous suppliers. Whatever the contributions of home-grown "sunrise" industries, they apparently have yet to make much impact on the UK's international trade.

The growth of the trade deficit in IT since the late 1970s is doubly worrying. Not only is IT the most pervasive and economically important of the new technologies; but the deficit also marks the continuation of a long-term decline in Britain's overall competitiveness in technology-based industries at a moment when the innovation cycle is providing huge commercial opportunities.

According to the US National Science Foundation, the UK's share of world exports of technology-intensive products (measured by the proportion of research and development in value added) fell from 12 per cent to 8.5 per cent between 1965 and 1984.

This was much the steepest drop of any of the major industrialised countries and contrasts with an almost three-fold increase in Japan's share. Over a similar period, the UK's share of US patents fell from 26 per cent to 15 per cent, while the shares of both France and West Germany increased.

To hope that these long run trends can be reversed by policies which mainly emphasise selective deregulation, the encouragement of entrepreneurial start-up companies and increased inward investment from abroad looks optimistic. For comparisons between the UK and its better performing foreign competitors also reveal major differences in the national allocation of technological resources and the economic infrastructure in which they are exploited.

The most glaring difference is the disproportionate importance of defence in total UK research and development spending—at 29 per cent in 1983 the highest in the OECD. Furthermore, between 1974 and 1984, defence equipment procurement as a percentage of manufacturing GDP almost doubled to 12.3 per cent.

The economic—as opposed to strategic—value of UK defence spending is highly debatable. No only is it hard to discern commercial spin-offs from it but some critics—notably the authors of a recent paper published in Lloyds Bank Review*—argue that it positively detracts from industrial competitiveness by draining away scarce human and financial resources from commercially more rewarding activities.

In a study published last year** Dr Henry Ergas, an economist with the Organisation for Economic Co-operation and Development, contrasted unfavourably the "mission-oriented" approach to technology exemplified by the UK concentration on defence with the "diffusion-oriented" policies in force in West Germany, Sweden and Switzerland.

While British policy sought, with dubious success, to harness technology to solving highly specific big problems, "diffusion-oriented" countries emphasised the dissemination and application of technology across a broad range of industries. Rather than trying to direct change, governments in these countries have concentrated on decentralised measures designed to facilitate it.

This distinction goes some way to explain why traditional industries—such as mechanical engineering—have been much more successful in West Germany and Sweden than in Britain in making the transition to new technologies, notably microelectronics.

The key to that success lies in the mechanisms employed to transfer technology to industry. These are, obviously, highly complex. But Dr Ergas, like several other analysts, identifies as the overriding factor the availability of highly skilled and well-trained employees in the companies concerned.

In West Germany and Switzerland, more than 85 per cent of 17-year-olds are in some form of education and training, against 60 per cent in the UK, while only 10 to 15 per cent of school leavers possess no form of qualification, compared with 40 per cent in Britain. Furthermore, there is far more direct involvement by industry in vocational training in the German-speaking countries than in Britain.

The lesson seems to be that successful exploitation of high-technology is as much about developing people as about developing things. Adding weight to that conclusion is the PSI's survey finding that, of all the obstacles to the introduction of microelectronics in British factories, the single most important cited by respondents was a lack of skilled people.

*"*Industrial Competitiveness and Britain's Defence Commitments*, *Lloyds Bank Review No. 161, September 1986*.

**"*Does Technology Policy Matter?*" *Henry Ergas, Centre for European Policy Studies paper No. 29.*

Guy de Jonquieres

Picture by Ashley Ashwood

In the business world, the financial sector has led the way in applications for information technology. Above, a section of the London Stock Exchange's computer control room.

Picture by Terry Kirk

British Airways—back in profit under a tough management team led by Lord King, chairman, above

Civil aviation

Major impact on air transport sector

THE PRIVATISATION of state-owned British Airways in the early weeks of the New Year, followed by the privatisation of BAA plc (formerly the British Airports Authority) towards the summer, will be the two most significant events in UK civil aviation in 1987, with far-reaching effects upon the entire air transport industry.

In both cases, the most immediately likely result of privatisation will be a significant increase in aggressive competition as the newcomers to the private sector seek to test their market power.

BA will still be one of the largest airlines in the world, and by far the biggest single element in UK civil aviation, but will be free to exploit its competitive strengths in whatever way it chooses, freed from the political constraints that have tempered its actions in the past.

There will continue to be some operational constraints, however, just as there are on other airlines. Even a privatised BA will still be obliged to seek new route licences through the normal procedures of the Civil Aviation Authority, and will be prevented from predatory pricing practices. This will at least ensure that BA will not be able to ride roughshod over other, smaller airlines in the marketplace.

But the great size and resources of a privatised BA still give many of the independent airlines cause for concern, and over the first few months after privatisation, BA's actions will be carefully watched to see in which directions it will wield its strength.

So far, BA has kept its intentions quiet, but it is reasonable to expect that it will make bids for more substantial shares of those markets in which it is already licensed to fly, both domestically and internationally, and in both the scheduled and charter arenas, so as to maximise its revenues and boost its profits.

BA has already shown, under the tough management of Lord King as chairman and Colin Marshall as chief executive, how an airline can be pulled back from the brink of bankruptcy to become one of the most profitable in the world, and that by paying careful attention to such things as punctuality and the quality of passenger service, traffic can be increased substantially.

It seems likely, therefore, that one of the most immediate results of privatisation will be an all-round improvement in the standards of the air transport industry, as those independent airlines that do compete directly with BA domestically and internationally fight to preserve their niches in the marketplace.

Some of the independent airlines are already well aware of this, and with modern re-equipment and staff motivation programmes are themselves among the best in the world. There are others, however, that do not yet seem to be aware of the changes in the market climate that a privatised BA will generate.

While it is too early to suggest what the longer-term results may be, it is reasonable to assume that between now and the end of this decade, there will also be some substantial changes in the structure of the so-called independent airline industry as a result of the increasingly competitive climate, with mergers and even possible bankruptcies.

The privatisation of the British Airports Authority has already been moved a step forward with the creation of BAA plc, and although the date for a share sale has yet to be announced, it seems likely that the company will be in the private sector by the middle of the year.

Already, the seven airports involved—Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Prestwick and Aberdeen—have been converted into companies, and are now operating as entities in their own right, under the overall authority of BAA plc itself.

Privatisation of British Airways and the British Airports Authority is likely to bring a significant increase in aggressive competition as newcomers enter both markets.

As with BA, the long-term intentions of BAA plc have not yet been disclosed, but the possibility of it expanding by taking over other, currently either privately-owned or local authority-owned airports in the UK cannot be overlooked.

Moreover, although the basic objective of BAA plc must continue to be the profitable operation of airports for the benefit of the passengers and the airlines, it will be free to exploit its undoubted market potential in whatever ways it may choose, subject to environmental and local authority and other planning consents.

One can envisage airports, such as Gatwick, which are at present used as little more than "gateways" into and out of the country being turned into places of pleasure and leisure where the spending power of the many thousands of passengers and their "meeters and greeters" can be tapped more substantially than through the medium of duty-free shops as at present.

Whether this comes about or not, BAA plc will still be the biggest single airport owner and operator in the world, and its influence upon airport design, development, construction and operation will be considerable, both in the UK and internationally.

Apart from the privatisation issues, it is likely that civil aviation policies will continue to be dominated by such matters as liberalisation and cheaper fares that have occupied so much attention over the past few months. Although the UK has had less success than had been hoped in promoting its policies of greater freedom for the airlines in Western Europe, it is not likely to surrender the limited amount of success it has already won.

The initiative in trying to force reluctant airlines and their Governments to accept greater competition must now rest with the EEC itself, since the UK's presidency of the Commission has ended, and it remains to be seen how much more successful the Commission itself will be in imposing the competition rules of the Treaty of Rome upon the European airline industry.

Certainly the UK itself can be expected to continue to press for greater freedom of market entry, and for cheaper fares, in the various bilateral negotiations with individual countries, but there are some factors in the situation that appear to have been overlooked by many.

One is that even the UK is effectively arguing for cheaper fares for only a proportion of its air travellers—those who predominantly fly on business on scheduled services, for a substantial proportion of all UK-originating international passengers are leisure travellers on deregulated whole-plane charters or part-charters on scheduled services who already enjoy some of the cheapest air fares in the world.

It is estimated, for example, that in 1985, out of some 53m international passengers at UK airports whether carried by UK or foreign airlines, some 19m or more were charter passengers, and that of the other 34m scheduled passengers a substantial number were on part-charters.

Thus, it is likely that close to half of the total air traffic into and out of the UK is already flying at ultra cheap rates, and that too much pressure to widen that cheap fare market to include the high-fare business traffic will generate its own backlash among countries, especially in Southern Europe, who receive all those millions of leisure travellers flying in UK aircraft but get little share of it in aircraft of their own.

It is significant that last November, at the Transport Ministers' meeting in Brussels, countries that voted against the UK's plan for cheap fares included Italy, Greece and Spain—countries that already accept a massive volume of cheap charter traffic in UK aircraft (and indeed, from other countries such as Scandinavia and West Germany). While much money accrues to their national tourist accounts from that low-fare traffic (through hotels, meals, car hire and so on), their airlines receive relatively little share of it.

It could well be, therefore, that as part of any *quid pro quo* for accepting UK plans for greater liberalisation and cheaper fares in scheduled air travel, those countries might reasonably insist on a greater share of the already high, and expanding, cheap air charter traffic.

In the meantime, however, it seems that much of the progress towards cheaper rates and greater freedom for scheduled air travel will depend not only on the UK's own continued bilateral negotiations but also upon how successful the EEC is itself in pursuing its plans for litigation against airlines that it believes are in breach of the Treaty of Rome, together with its plans to change the voting rules to ensure that liberalisation proposals can be approved by a majority instead of the unanimity required at present.

Michael Donne

Aerospace

Big financial decisions ahead

THE UK aerospace industrial scene during the coming year will be characterised by major decisions on the financing of new civil and military projects that will keep much of the industry busy through until the end of the century, together with further privatisation measures that will significantly change the industry's long-term structure.

Rolls-Royce, which has been State-owned since the bankruptcy of the original Rolls-Royce Limited in 1971 and its subsequent rescue by the Government, is to be privatised in April or May.

A total of between £750m-£1bn is expected to be raised, according to City estimates, and special provisions will be included to ensure the company remains in British hands. The company's management under Sir Francis Tombs, the chairman, has been eager for such a transfer back to the private sector.

Further ahead lies the prospective eventual privatisation of Short Brothers of Belfast, which has been in Government ownership since it was taken over in 1943 in the middle of World War Two.

Although the Government has stated that its long-term intention is to restore Short Brothers to the private sector, the company's own financial difficulties during 1986, and the possibility of a general election sometime in the next 12 months, may result in a deferment of that plan, possibly for some time.

Of more immediate concern to the aerospace industry is the request to the Government by British Aerospace for up to £750m in launching aid for its proposed participation in developing the wings for the next generation of European Airbuses, the A-330 short-to-medium range 330-seater twin-engined jet, and the four-engined, long-range A-340 aircraft. These aircraft will be developed together on a common production line, with common fuselages, wings and systems.

British Aerospace, which holds a 20 per cent financial stake in Airbus Industrie on behalf of the UK Government, has built the wings for all previous versions of the Airbus—the A-300, A-310 and A-320 series—and is anxious to undertake wing development for both the A-330 and A-340, involving perhaps as much as 26 per cent of the total work involved on those aircraft.

BAe's problem is that it already has extensive outstanding commitments from its own resources on other civil aircraft, notably the Type 146 four-engined regional jet airliner, the Advanced Turbo-prop (ATP) twin-engined airliner, the Jetstream 31 twin-engined turbo-prop and the smaller Type 125 twin-engined executive jet (and also its own contribution to the costs of the wings of the existing A-320 beyond the Government's £250m of launching aid granted for that aircraft).

This means that it has no significant spare resources to commit to the A-330/A-340 ventures, and is obliged to seek substantial launching aid.

BAe's application has been submitted and the Government, through the Department of Trade and Industry, has promised a decision by early in the New Year. It is clear that BAe is having to work hard to convince the Government of the logic of its case, for in a possible election year the Government cannot dispense such large sums of cash too liberally to an industry that is getting substantial sums of taxpayers' money in other directions, for example through defence funding on military aircraft ventures.

It is possible that the Government may decide to advance only part of the cash sought, in which case BAe will have to consider raising the balance from external sources, such as borrowing in the City, or finding it internally.

What is also clear, however, is that other potential partners for the A-330/A-340 ventures are waiting on the sidelines, in Western Germany, the US and even Japan, ready to move in if BAe is either unable or unwilling to take up the wings contract.

One way or another, Airbus Industrie is determined that the A-330/A-340 will go ahead, with or without BAe as a contributing partner. If BAe were to be unable financially to participate in those ventures, the only losers would be both BAe itself and the UK aerospace industry generally. The UK would continue current work on earlier Airbus models, but would have no role not only in the new ventures but also in any derivatives that might emerge, between now and the end of the century.

For this reason, the industry argues strongly that the UK Government's response to the request for launching aid must be "yes," but it remains to be seen whether the Government accepts that argument.

Another major project upon which much of the UK industry's future hinges is the European Fighter Aircraft (EFA), sometimes also called the Eurofighter, and its associated engine, the EJ-200.

This venture, a collaborative effort between the UK, West Germany, Italy and Spain, is now completing the long detailed project definition phase, and is awaiting the final go-ahead for full development from the four Governments involved, expected some time this spring or early summer.

A tactical, multi-role combat aircraft, with both ground attack and air superiority capabilities, to replace ageing Jaguar, Phantom and other aircraft in the four air forces involved, the EFA is expected to be built in substantial numbers—over 800 are forecast initially, but with exports and later additional purchases over 1,000 may eventually be built.

Its significance to the UK is that, quite apart from the RAF's urgent need for such an aircraft, it will be moving into quantity production around the end of this decade, when current Tornado production is virtually completed (unless further export deals such as that with Saudi Arabia, or additional air force procurement, occur), so that continuity of military aircraft production can be assured.

Together with the substantial work-loads accruing to the equipment and engine industries, the EFA collectively comprises one of the most significant military aircraft ventures yet undertaken on this side of the Atlantic, and, Tornado notwithstanding, one of the biggest military ventures yet in the UK aerospace industry.

Without it, a substantial part of the UK industry will be severely run down when Tornado finally phases out.

In addition to these significant civil and military ventures, the UK industry is placing much reliance for the future on other aircraft and engine programmes. In civil markets, the British Aerospace 146 continues to sell well, as do the Jetstream 31 and Type 125 executive jet, while the Advanced Turbo-prop is as yet only at the beginning of its life.

In engines, Rolls-Royce has done well with its private-venture Tay jet engine, in the Gulfstream IV and the Fokker F-100 twin-jet airliners.

Further ahead in the commercial engine field lies the growing challenge of the new "prop-fan"—the revolutionary combination of improved gas-turbine engines with propellers of new design, to yield improvements in fuel consumption of up to 25 per cent compared with the new generation of conventional turbo-fan jet engines now under development.

During the coming year, further research and development into various forms of prop-fan engines will be undertaken in the UK and the US, by Rolls-Royce, General Electric, Pratt & Whitney and Allison, as well as by Boeing and McDonnell Douglas.

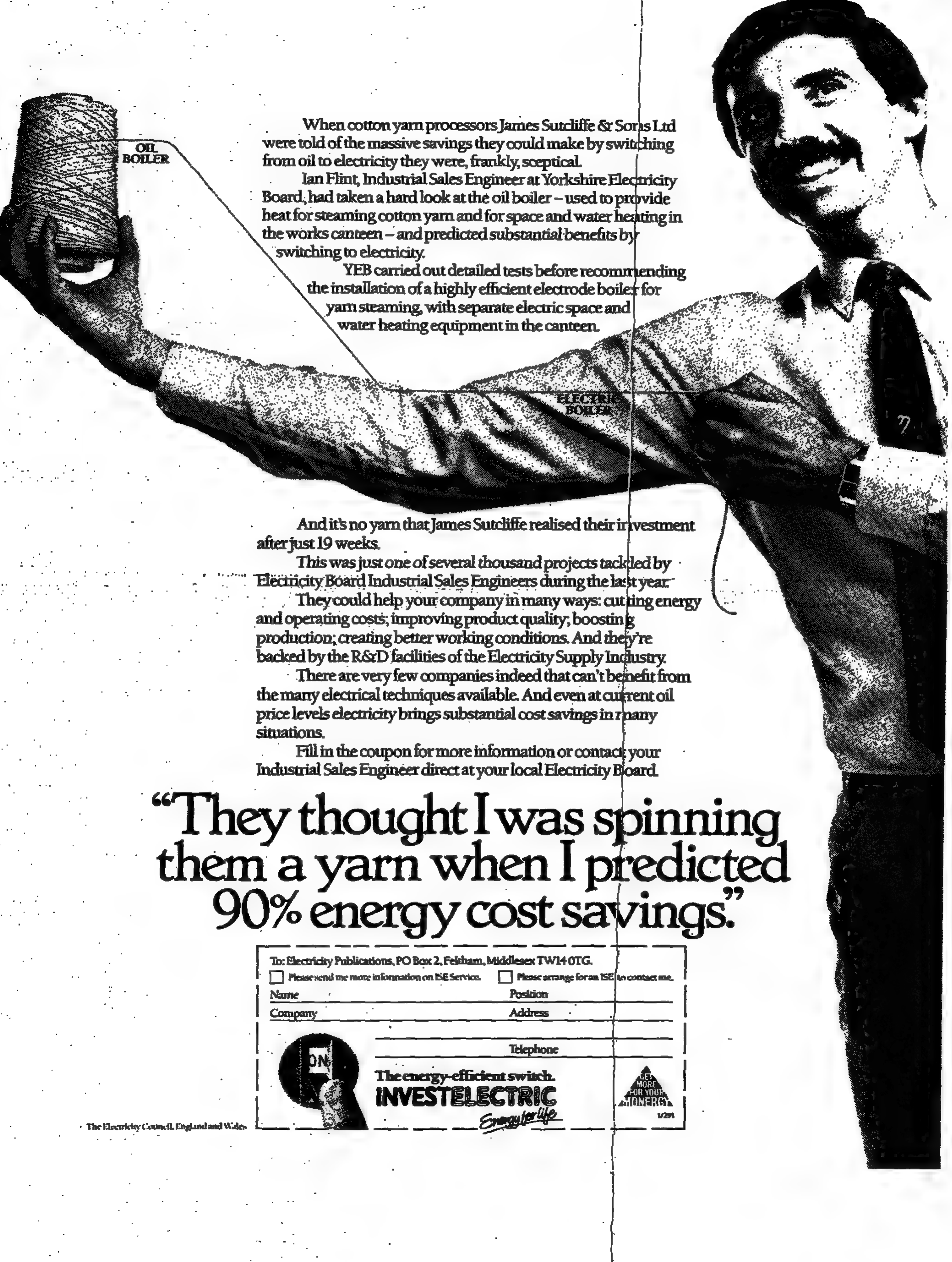
By the end of the year, it is likely that the two latter airframe manufacturers will have launched onto world markets their respective new prop-fan powered airliners, the Boeing 7J7 and the McDonnell Douglas MD-91X, for service in the early 1990s.

The significance of these developments cannot be underestimated, for they could well revolutionise the entire concept of world air transport aircraft design and development as currently understood, and result in major new engine and airframe ventures coming forward to rival those we know today.

Some existing turbo-fan jet powered airliners, even the Airbus A-320, may by the mid-1990s have to be re-engined with prop-fan power-plants so as to remain competitive.

Much of the future time-scale for such developments is likely to be determined by what is done in the UK and US aerospace industries in the 12 months ahead. For that reason alone, 1987 could be one of the most significant, catalytic years in aerospace development ever seen.

Michael Donne



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Motor industry

Car sales at record levels

NEW CAR sales should remain at near-record levels this year, and the importers' share of the market can be expected to fall. The outlook for exports is also brighter, but car production will remain flat.

That, in summary, is the 1987 outlook for the UK car makers. Sales to private buyers will be boosted by the increased consumer confidence which the expected income tax reductions will produce among those in employment.

Average earnings continue to outpace the retail price index, and because of heavy discounting, real car prices are currently at their lowest level, probably for several decades.

The high and consistently growing level of company profitability and liquidity will provide stimulus for the fleet and company car market which accounts for roughly half of new car sales in the UK.

The industry, as a result, is expecting the car market in 1987 at least to match the record 1.85m registrations for 1986 and some forecasters are convinced that 1.88m will be reached.

Although both Ford, the market leader, and General Motors-Vauxhall have been attempting to ease back on the competitive throttle by reducing the extra bonuses they have been giving dealers—and thus cut the dealers' opportunities to offer large discounts on new cars—the car wars could flare up again.

Ford early in 1987 will offer "facelifted" versions of its Sierra hatchback and at the same time introduce a booted Sierra for the first time. This will put increasing pressure on the GM competitor, the Vauxhall Cavalier, which already is showing signs of fading as it comes towards the end of its expected life.

Austin Rover will also attempt to re-establish its medium-sized model, the Montego, with company car fleets, so the scene is set for another major battle between the three manufacturers in a key market sector.

In the past year currency changes have been working in Austin Rover's favour and are expected to continue to do so.

There is tremendous pressure on importers, particularly those shipping vehicles from West Germany, to raise prices substantially to compensate for the steep climb in the value of the D-mark. Mr Paul Layzell, managing director of BMW's import company, says that his company will need price increases totalling at least 20 per cent in 1987.

The currency re-alignments are also giving Ford, the major importer of cars to the UK, and GM, the second-biggest importer, a headache because they ship high-priced vehicles in from Germany. Mr John Bagshaw, chairman of GM-Vauxhall, says that every time the D-mark moves up one pfennig against the pound it costs his company £1m in earnings.

Thus, for the first time in some years, it makes commercial sense for both Ford and GM to bend to UK government pressure and supply more of the cars they sell in Britain from their British factories.

Mr Derek Barron, chairman of Ford of Britain, says the company provided about 60 per cent of the cars it sold in 1986 from UK plants compared with 53 per cent in 1985. Mr Bagshaw estimates that his British factories at the end of 1986 were supplying two-thirds of the cars and car-derived vans which GM was selling in the UK, compared with only 45 per cent at the same time a year earlier.

Car imports are, therefore, likely to fall back slightly in 1987 and, according to the Economist Intelligence Unit, should account for 56.6 per cent to 58 per cent of total registrations against 58.6 per cent in 1986. That would still leave the volume of car imports at over 1m units and the value will be inflated by a weak pound.

UK car exports suffered a blow in 1985 with the ending of shipments from Peugeot Talbot UK to Iran. This was once Britain's biggest single motor industry export contract but last year only 10,800 car kits were shipped.

Peugeot will compensate to some extent by re-starting exports—of the 309 model being built at Ryton—to continental markets at the annual rate of about 8,500.

Exports are also expected to benefit from the launch of Jaguar's new XJ6 models in North America, the company's biggest single market, and on the Continent.

Meanwhile Austin Rover's export sales should continue to recover from the low level to which they have dropped in recent years. In 1986 the company reckons to have sold 120,000 cars outside the UK, up from 101,000 in 1985.

Continental sales improved from 90,000 to 108,000 as the efforts made by the state-owned group to improve its dealer networks began to bear fruit. In 1987 Austin Rover re-launches into the US after a seven-year absence. The importer there has committed to take 27,000 high-priced Sterling executive cars in the first 12 months and hopes to sell 50,000 in the second year.

Export success has not been enough to compensate for the fall in Austin Rover's domestic market share caused by the uncertainties associated with the appointment of a new senior management team, together with the failure of the company's medium-sized cars to live up to sales expectations.

In the first nine months of 1986 Austin Rover's car output dropped by 18.5 per cent compared with the same months the previous year to 260,245 and the full-year total is likely to have been little more than the depressed 371,500 recorded in 1984.

Austin Rover, Britain's major car producer, might recover some ground this year and Ford and GM should also contribute more to total car production. However, most observers agree with the DRI Europe forecast that output will be similar to the 1m in 1986.

Mr Graham Day, new executive chairman of the Rover Group, is currently putting the finishing touches to his medium-term plans for Austin Rover but is unlikely to find the kind of miracle which would substantially lift the company's UK market share. Apart from a hatchback version of the new executive car, jointly developed with Honda of Japan and to be called the Rover 800, the company has no important new products to offer this year.

Austin Rover will be put under even more pressure in the market place as Nissan of Japan attempts to build its UK share from 6 per cent to 10 per cent to prepare for full-scale car production at its Washington, Tyne and Wear, factory. The plant is assembling Japanese car kits at the rate of 24,000 a year but will build annual output to 100,000 cars with a high European Community content by 1991.

The prospect of a new competitor, free from traditional working practices and with a youthful workforce, has already spurred Ford and GM to speed up their cost-cutting and productivity-improvement programmes—a process which will continue this year.

Mr Bagshaw has told Vauxhall employees and unions he wants to cut costs by at least 25 per cent to make Vauxhall better prepared to face the threat.

So, as the UK government hoped when it encouraged the Japanese to set up in Britain, the arrival of Nissan could well mark a turning point for the motor industry.

Kenneth Gooding

Productivity Record

	Output (1980=100)	Employment '000s	Productivity (1980=100)
1980	100	415	100
1981	82.9	359	95.8
1982	79.6	321	103
1983	83.9	307	113.4
1984	81.3	292	115.6
1985	86-87*	284	126*

* estimates

Collated by Society of Motor Manufacturers and Traders.

Motor Vehicle Production

	Number of passenger cars	Number of commercial vehicles
1974	1,534,119	402,566
1975	1,267,698	380,705
1976	1,333,449	372,057
1977	1,315,972	398,268
1978	1,222,949	384,518
1979	1,070,452	408,440
1980	923,744	389,170
1981	954,650	229,555
1982	887,679	268,798
1983	1,044,597	244,514
1984	908,906	224,825
1985	1,047,973	265,973
1986— Jan-Aug.	658,830	148,662

Source: Dept. of Trade and Industry.

Bob Scholey, chairman of British Steel Corporation: he is the first to concede that BSC—like the rest of the large European steel producers—has plenty of worries on its plate.

Mechanical engineering

Competition intensifies

THE MECHANICAL engineering industry endured a generally sticky year in 1986, culminating in a sprinkling of closures, further loss of jobs and rationalisation in the machine tools, materials handling and vehicle components sectors.

The coming year looks like offering the same medicine with overall sales worldwide likely to be largely flat or contracting, and companies locked in tough battles either to eat into competitors' markets or establish new product lines. The Engineering Employers Federation is predicting gross sales of the UK engineering industry at about £89bn, 6 per cent up on last year's figure, representing a real growth of about 2.5 per cent.

However, within that overall total mechanical engineering is expecting to chalk up little or no growth, partly because UK companies have a much larger dependency on Third World markets than their European competitors.

In these markets, already weakened by the oil price fall, British exporters do not benefit so much from the recent favourable movements in exchange rates, principally against the Deutschemark and Yen.

There are some optimistic points to make, however. The factors which conspired in 1986 to depress the domestic market for a whole range of engineered products might not have such a severe cumulative impact during the next 12 months. These included the slump in North Sea oil activities, the further rundown of railway workshops, the continuing slide in shipbuilding and offshore construction work and accelerating closures of coal mines and consequent loss of orders for mining equipment.

The reduction in capital allowances which hit a range of sectors has, moreover, worked its way through and some consumers who have been holding off purchasing new equipment in fields such as agricultural machinery might now be back in the market.

Engineering companies, too, have had reasonable balance sheets for the past couple of years after a long period of rationalisation, labour shedding and productivity improvements. A number, including Hawker Siddeley, Laird and Bunzl, have been on the acquisition trail in the US. Further purchases of companies in the UK by aggressive mini-conglomerates seem likely, though perhaps not on the same scale as 1986.

In some sectors, however, the worry that British companies are still failing to get their product ranges and marketing right—despite much greater success in exporting—persists. Mr Peter Deighton, engineering analyst at Hoare Govett, for example, points out that overall the performance of mechanical engineering has been disappointing.

The picture sector by sector is therefore mixed:

● In machine tools, the London Business School recently forecast an increase in UK demand in 1987 of 14 per cent, indicative of an improving market worldwide which some companies began noticing in the closing months of 1986.

Some machine tool makers, however, are more doubtful. Mr Tony Baldwin, managing director of fast-growing Beaver, says that markets overall will be "flat to better with no tremendous gain."

The yen is hurting Japanese machine makers and, Mr Baldwin argues, British companies will have to work harder in export markets, particularly Western Europe, Scandinavia and North America where there is reasonable demand for higher specification machinery.

● Power generation suppliers are waiting for a series of major decisions. The Government has yet to decide whether GEC or NEI should take the lead role in the Rihand Two project in India. A decision on the Sizewell B nuclear station is also awaited and whether to hold inquiries into the building of one or two coal-fired stations in the UK for ordering in 1988.

Even if a decision to go ahead is given this will in the short term not help GEC, NEI, the boilermaker Babcock and other suppliers to load up their factories. Even GEC, which has become over the past five years the world's second largest exporter of turbine generators and which is in rather better shape than much of the rest of the industry, cannot keep its plants busy.

Overall world prospects for power station orders are still depressed, though with some signs of an improvement.

In 1980-81, yearly ordering was running at 35,000 megawatts worldwide but from then on has laboured between 8,000 and 17,000 megawatts a year. Last year world orders totalled 10,000 megawatts and expectations are for about 17,000 in 1987, with India and China seeming to offer the best opportunities.

● Agricultural machinery makers, which includes tractor builders a sector in which the UK ranks alongside Italy as the leading European producer suffered another year of declining worldwide demand last year, the sixth in a row.

Some markets—like the domestic one for tractors—might improve marginally but the large British-based producers, Ford, Massey-Ferguson and Case, are major exporters and the world scene looks flat in 1987. "We don't see next year being any better than this year," says Massey.

● Mining equipment makers describe the short term outlook as unpredictable. The closure of 67 pits in the UK since the coal strike has upset domestic demand but there are a number of significant opportunities around the world.

Coal producers are striving to reduce production costs, largely through using more efficient systems, many of them based on longwall mining, a field in which UK manufacturers are among the world leaders.

British Coal is also going for high capacity, reliable equipment which suits the producers of more sophisticated mining machinery.

However India and China do not have the money to spend on the volume of equipment they would like for their deep mining operations and US demand weakened in 1986.

● Britain is a substantial supplier of small and medium sized construction equipment though it has generally failed to compete in bigger machinery with the notable exception of the articulated dump truck.

For this latter vehicle Terex is transferring much of its production from the US to its Scottish site and David Brown has announced a deal to make articulated dump trucks for Komatsu, with part of the fabrication work in the north east.

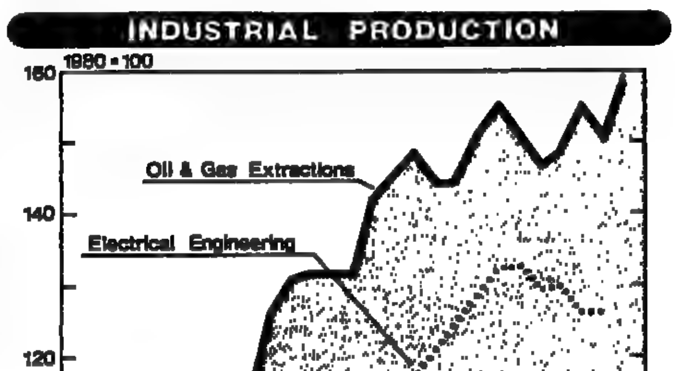
Mr David Phillips of the Corporate Intelligence Group suggests that 1987 could be marked by the closure of up to 15 per cent of UK construction equipment production capacity, the further growth of Beaver which recently bought Hymac from NEI and the continued expansion of JCB, possibly through acquisition.

● Producers of materials handling equipment have been selling in rather fragile markets throughout 1986 but most equipment makers seem to be expecting a slight improvement through the next 12 months.

In this sector, the UK is the third largest maker of lift trucks in Europe and the second biggest exporter behind West Germany. Mr Alan Tilley, marketing director of Lansing says importers of machinery have been under increasing pressure to raise prices because of the exchange rate though this has yet to make itself felt in the market.

Nick Garnett

INDUSTRIAL PRODUCTION



The UK engineering industry is expecting to chalk up little or no growth this year, partly because British companies have a much larger dependence on Third World markets than their European competitors.

Steel industry

Still facing a host of uncertainties

AFTER SIX years of huge cutbacks in manpower, large scale rationalisation and closures and the most significant realignment between the public and private sectors since the formation of the British Steel Corporation twenty years ago, the UK steel industry is in better shape than it has been for a long time.

Yet it has entered 1987 facing a host of uncertainties, born out of the continuing overcapacity in the European steel industry, and the fragility of what are static or declining domestic and export markets.

The tussle in Europe over whether many of the remaining internal EEC quotas should be abolished by the end of this year or retained in some form in return for substantial capacity closures—if the producers can agree them—is one of the most urgent issues facing the Community.

The tough regime of quotas for the US market, the vulnerability of the steel industry to exchange rate movements and the threat posed by Third World producers in some products continues to make the trading environment difficult to predict.

At the end of the day, the overriding constraint on company growth and profitability is that they are generally selling in markets that have no prospects of growth.

That means a never ending struggle to squeeze more efficiency out of production plants and a scramble for greater market share. Within the private sector it also involves seeking out new niches, purchasing quota by buying up competitors and looking at different materials to exploit, like plastics.

On top of all this, British Steel (BSC) is drawing up proposals over the next few months on the shape of a possible privatisation of its operations. It has hinted strongly, though, that it will not be in the right state of financial and trading health for that to go ahead until at least 1989.

By then the future of Ravenscraig, Scotland, the life of which is effectively protected only until next year, will be known.

The BSC which accounts for a little over three quarters of the liquid steel produced in the UK has demonstrated a remarkable financial turnround in the past 18 months after nearly six years of dramatic productivity changes, accompanied however by losses totalling £7bn.

Its profit of £68m after interest in the first six months to September 1986 was double the profit for the same period in 1985, and the £38m bottom line profit for the twelve months to March 1986 took many people by surprise.

For the full year to March 1987, the corporation looks like making well over £100m profit.

Mr Bob Scholey, the corporation's chairman is the first to concede, however, that like the rest of the large European steel producers BSC has plenty of worries on its plate. Not least of these is its need to make yearly profits of £200m to cover re-investment and the squeeze on profits by rising costs.

For its part the European Commission says that despite the estimated 20m tonnes of overcapacity in European steel in 1990 the industry is healthy enough to live without the quota regime.

The corporation and most of the other large steel producers do not agree and Eurofer, the integrated steel producers association has offered outline proposals for taking out 11.9m tonnes of capacity in products made by Eurofer members.

Mr Scholey warned recently too that cheap imports had to be tackled if market liberalisation was not to result in further price collapses.

Despite BSC's much improved performance it suffers from some specific weaknesses against its European competitors. One set of figures indicates that while BSC's bottom line profit is not out of line with some of the best European producers its operating profit per tonne is less than half that of some of these competitors.

It also has a very weak presence in European markets though it has been trying to increase its outlets there by the purchase of small profiling and stockholding companies.

The 58 members of the British Independent Steel Producers Association are also largely in the black though their performances vary widely.

Allied Steel and Wire, one of the joint venture companies formed by BSC and the private sector is making yearly profits of more than £15m while Sheffield Forgemasters, though now trading in the black is still rather sickly.

There is perhaps 9m tonnes of overcapacity in wire rod and bar and related products in the EEC but the impact of the discussions within Eurofer on non-member UK private companies is problematic.

The UK private sector still has some overcapacity in rod, bright bar and general rerolling. One rod mill and perhaps one medium sized bright bar plant might disappear though not necessarily this year.

Allied will continue to examine, with the help of the universities, the possibility of exploiting new materials while the finishing company Arthur Lee is committed to pushing the share of its turnover accruing from plastics from the present 10 per cent to 25 per cent in the next few years.

Companies are anxious to see some growth in the UK domestic demand, particularly in construction, where they hope that in the medium term the Channel Tunnel and various river barrage schemes could help load up mills which could run on 21 shifts a week but are now more usually operating on 10 to 17 shifts.

Mr John Pennington, chief executive of United Engineering Steels, the biggest private sector company, with its main markets in mechanical engineering and vehicles, echoes the view of many managers when he says the industry is international and it is a matter of improving profit potential through companies own actions.

Nick Garnett

BUSINESS CHANGES

■GKN's change in world business between 1979 and 1985:

This shrinkage in UK markets has resulted in a significant change in geographical emphasis within GKN, as illustrated by the following table comparing 1979 with 1985.

	1979	1985
●Percentage of Total Sales from	%	%
UK	68	48
Continental Europe	22	26
America	3	22
Rest of World	7	4
	100	100
●Surplus on Trading earned in	£m	£m
UK	83	47
Continental Europe	45	56
America	—	51
Rest of World	10	4
	138	158
●Employees		
UK	69,100	27,200
Continental Europe	14,600	13,900
America	2,000	4,800
Rest of World (see note)	18,600	2,400
	104,300	48,300

Note: The rest of the world figure in 1979 includes 15,200 employees in Asia, most of which were employed in Guest, Keen Williams, which became a related company in 1983.

Source: GKN

GKN's strategy now is to diversify away from declining UK sectors, such as steel and vehicle production, in favour of new products and overseas markets

MARKET CHANGES

	1969	1979	1985
Car production ('000)	1,717	1,072	839
Commercial vehicle production ('000)	466	409	267
Tractor production ('000)	195	135	88
Crude steel production (m tonnes)	26.8	21.5	15.7
Manufacturing production index (1980=100)	103.0	109.5	103.8
Construction output index (1980=100)	113.3	105.8	99.8

Source: GKN

A key market indicator

PROFILE

GKN

GUEST KEEN and Nettlefolds is not the company it was. The grouping formed at the beginning of this century by John Guest, iron smelter, Arthur Keen, nut and bolt maker, and Nettlefolds, ironmongers and screw manufacturers, effectively abandoned those core products last year.

The initials GKN now describe a once West Midlands-based company that has set the pace for the traditional engineering industry, seeking new markets overseas to establish an international business committed to heavy investment in research and development and new products.

But, for all the changes that have taken place, particularly over the past traumatic six years when the UK labour force has ben slashed from nearly 70,000 to little more than 27,000, GKN remains the bellwether company for the engineering industry.

Nothing could have demonstrated that more clearly than the general slide in share prices that followed the disappointment at GKN's interim figures last August. Pre-tax profits for the half year were up on the previous year at £74.5m, but the City had been expecting around £80m.

The market had been looking for full-year profits of some £155m but Sir Trevor Holdsworth, the chairman, cautioned that trading difficulties and price pressures would make it difficult to improve upon the pre-tax profits of £133m of the previous year.

Even since that statement, key automotive markets, such as tractors and commercial vehicles, have deteriorated further, but brokers accept that the City overreacted. While pre-tax profits might be down slightly for the current financial year, growth is expected the following year.

Medium term prospects are regarded as good as new products come through, overseas manufacturing is increased, particularly in Japan, and acquisitions are sought.

GKN has certainly divested itself of what it regarded as low earning peripheral businesses. On fasteners, an £11.6m management buy-out early in 1986 removed that loss maker. On steel, agreement was reached with British Steel to merge steel and forging operations into United Engineering Steels.

The latest move is the proposed sale of the nearly £200m a year steel stockholding business, the largest in the UK, to rivals C. Walker and Sons for £50m.

The GKN strategy of diversifying away from declining UK sectors, such as steel and vehicle production, in favour of new products and overseas markets, has been pursued purposefully throughout the recession. UK sales as a percentage of total turnover has dropped since 1979 from nearly 70 per cent to less than half. Over the same period sales in the US have shot up from 3 per cent to 22 per cent.

Crucial to GKN's success has been the commitment to research and development—currently running at £40m a year—to ensure its products are at the forefront of new technology. It was the technology of the constant velocity joint, important for front wheel drive vehicles, that led to expansion in the US with the building in 1980 of a manufacturing plant to supply Ford.

Renegotiation of that contract, accounting for around 80 per cet of output, and the need to cut margins was one of the causes of GKN's reduced profit forecast. But there are hopes that dependence upon Ford can be reduced by increasing supplies not only to American Motors and Chrysler but also to the Japanese car assemblers now establishing facilities in the US.

GKN has also expanded rapidly in the autoparts distribution business in the US as well as in the UK but the markets in both countries are going through changes which make further profitable growth difficult in the short term.

Within GKN's traditional automotive components business the emphasis upon research has brought two important new products: the lightweight leaf spring, for use in medium-sized vehicles, and viscous coupling, an anti-skid device suitable for four-wheel-drive vehicles.

The new leaf spring factory is on the old Sankey site at Telford, West Midlands, the steel pressings company that has seen employment slashed by more than a third to only 1,900 in recent years. Output in a factory built to produce 500,000 springs a year is currently running at only one-tenth that level, but the product is on trial around the world.

An indication of GKN's international ambitions is given by the fact it has involved Japanese companies as minority partners to manufacture both leaf springs and viscous couplings in Japan.

GKN, an important supplier of armoured trucks in the 1950s and 1960s, has broken back into the defence field with its successful Saxon four-wheel transporter.

More significant is the £500m contract to supply the British Army with the Warrior armoured carrier. Negotiations, for what should be profitable business, are well advanced with countries such as Turkey, Kuwait, Jordan, Saudi Arabia, Oman, India, Greece and Spain.

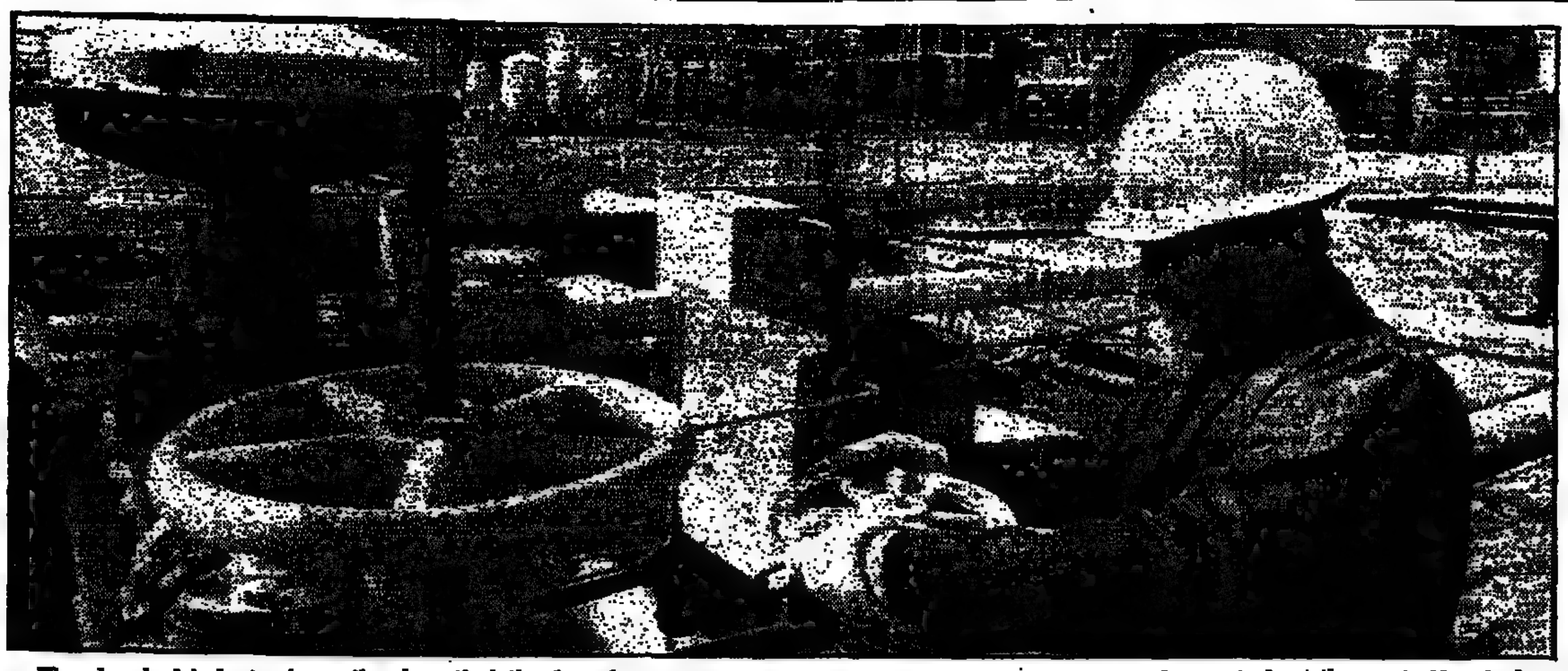
The fastest growing division within the group is industrial services, established in the late 1970s and now embracing pallet pooling, scaffolding, foundations engineering, automatic vending and waste management.

Kwikform Scaffolding is 60 per cent owned, and after its growth in the UK and Australia is now looking to the US market. Also in the US, a joint venture with Dynorod has been launched to develop a drain and pipe cleaning service.

GKN, after the cuts of recent years to pare itself back to what it regards as its core growth business, is also expected to be in the market for acquisitions and new ventures.

The UK still gets its share of the £100m a year investment budget—£22m has, for example, just been spent at Hardy Spicer on automation and new production facilities. But GKN has been transformed over the past five years and must view prospects in international terms.

Arthur Smith



The chemical industry is cautiously optimistic about its prospects for 1987. Above, an engineer checks valve controls at the Shell Chemical complex at Carrington, near Manchester

Chemical industry

Environmental issues come to the fore

THIS YEAR should be a fairly good one for chemical industry profits in the UK, and, indeed, worldwide. There is one issue facing the industry, though, which is a good deal less comfortable.

Just two years ago, the industry was in disarray after the disaster of Bhopal. In 1987, it *will have to deal* with the consequences of another series of accidents far less grave in human terms, but of great significance politically—the spillage of dangerous chemicals into the Rhine.

As luck would have it, 1987 has been designated European Year of the Environment. Environmental measures affecting the chemical industry generally originate with the European Commission. As a means of alerting the EEC to chemical pollution, the offending parties—*Sandoz and Ciba-Geigy of* Switzerland, and BASF, Hoechst and Bayer of West Germany—could scarcely have chosen a more public means than tipping poisonous chemicals into the river which forms the frontier between France and West Germany, the Community's two most powerful members.

This year will also see a number of specific environmental issues being thrashed out. In the spring, comes the inter-governmental conference on the *North Sea, which will doubtless* consider such questions as the levels of sea pollution caused by titanium dioxide producers in the north east of England.

Again, the spring should see final decisions on a European protocol for fluorocarbons. Used in aerosols, fridges and so forth, fluorocarbons have been accused in the past of damaging the ozone layer in the upper atmosphere. After some setbacks, the scientific case is now believed to be better established, and there could be restrictions on products made very profitably by a small number of companies such as ICI and Du Pont.

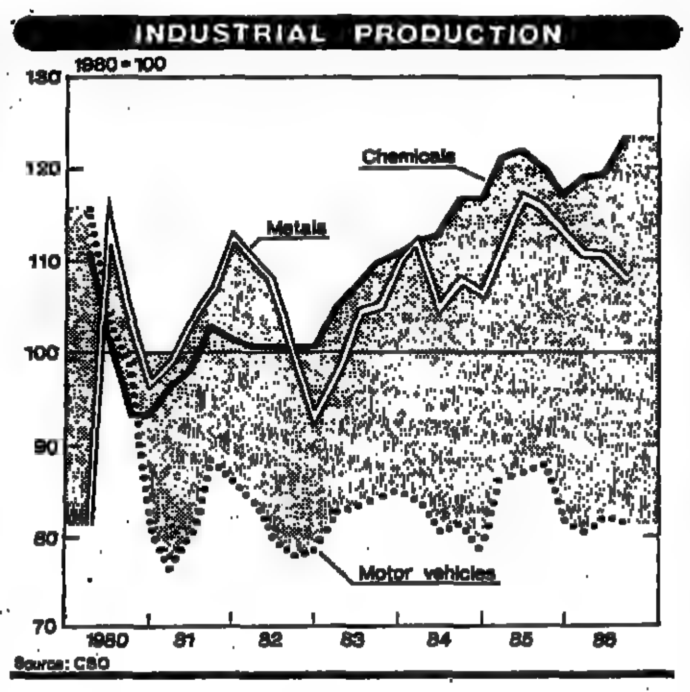
The environmental issue also touches on one of the industry's most troubled areas, agricultural chemicals. In fertilisers, the three big UK producers—ICI, Norsk Hydro of Norway and UKF of Holland—are all now making losses, partly because of Eastern European dumping, but also because of more deep-seated problems to do with the squeeze on farmers' incomes and overcapacity across Europe.

The slump in US farming and the squeeze on EEC surpluses is also taking its toll of pesticides and herbicides. Some of these problems may prove temporary. The environmental lobby, though, is a continuing force, and many in the industry would concede the likelihood of some sort of restriction on the use of nitrate fertilisers in the near future.

In ICI's case, the collapse of the fertiliser market means that the group faces break-even in 1986, and probably this year, too, on a business which made £136m—over one-eighth of the total group profits—in the record year of 1984, when ICI became the first non-oil company in the UK to raise pre-tax profits above the £1bn mark.

Remarkably, though, ICI looks *on course to match its 1984* performance in 1986, with analysts looking for around £1.05bn pre-tax. For 1987, forecasts run as high as £1.3bn—again, on the basis of virtually nothing from fertilisers, and a seriously depressed performance from agrochemicals.

This introduces a more cheerful note. The cyclical upswing which began in 1982 has continued with *occasional hiccups* ever since, and looks set to run on through the present year. In addition, and probably more important at present, the UK industry can look forward to a continuing tightening of supply in some previously difficult petrochemical markets, and also to the benefits of weak sterling against the D-mark.



As a result, petrochemical margins, which a year ago rebounded to their highest levels since the late 1970s as a result of the collapse in the oil price, look like holding up much longer than could have been foreseen this time last year.

ICI's profits surge this year of between 20 per cent and 30 per cent is likely to be exceptional, partly because of currency advantages. However, the German triumvirate of Hoechst, Bayer and BASF can also expect some progress—around 8 per cent each in pre-tax profits, according to the London stockbrokers Greenwell.

Over in the US, the situation is complicated by the timing of the industry's rationalisation, which for a number of reasons came much later than in Europe. Most of the big exceptional costs now seem out of the way, and benefits—to the tune of, perhaps, 10 per cent in earnings-per-share terms—look possible this year.

There is the further interesting question of how far the remarkable series of takeovers will continue in the US industry—and how far the Europeans will carry on plunging in as buyers.

Tony Jackson

Pharmaceuticals

Cheered on by stable pressures

THE pharmaceutical industry in the UK has reason to feel more cheerful this New Year than it did 12 months ago. Then, the Government was cutting up rough over National Health Service pricing, price cuts were expected in Japan, and there was steady pressure on hospital spending in the US.

This year, US pressure may not be any less, but is not perceptibly worse. And while the cuts in Japan went ahead as expected, this year the exercise *may be postponed* for some months. And, most important from a UK viewpoint, the Government has in effect conceded that it had gone too far in squeezing the return on capital allowed to drug companies, and has allowed the rate to rise again.

The weakening of sterling, too, is a bonus. UK drug firms are overwhelmingly overseas earners, and are in the habit of using the futures markets to hedge their currency exposure. Taken with the widespread practice of converting on a year-average exchange rate basis, this means that some of the benefit of last year's weakening pound has yet to come through in published results.

Brokers' forecasts for this year are correspondingly higher. Ian White, of London Brokers Greenwell, said: "a year ago we were not unusual in expecting Glaxo to make £505m pre-tax in 1985/6. In fact, they made £611m. At that time we expected £600m for 1986/7—now we're going for £765m."

Glaxo, of course, is still riding high with its extraordinary ulcer drug, Zantac. However, White also looks for £360m this year from Beecham—an 18 per cent increase—and £162.5m from Wellcome, a jump of 30 per cent. "Every company in the sector," he said confidently, "should get growth of at least 15 per cent a year over the next five years."

However that may be, political attitudes towards the industry always an important factor seem to be mellowing. This is partly because of public perceptions, which are arguably being affected by the wave of publicity over Aids. It is a UK company, Wellcome, that has come up with the only drug so far to have even a modest effect in controlling the disease.

Other drug companies Glaxo included are pouring money and resources into *Aids* research. It seems quite possible, though it is hard to prove, that it is to the drug companies that the public primarily looks for an answer to Aids. Wellcome, indeed, seems to be in a curious reversal of roles anxious to make a thorough evaluation of the true value of its treatment, but under political pressure to get it to the market as quickly as possible.

The one political cloud is the resolution passed at the latest Labour Party conference to *nationalise a large supplier of* drugs to the Health Service. It is not clear which company would be chosen, but the stock market has settled on Glaxo by a process of elimination, on the grounds that much of Beecham consists of toothpaste and Lucozade, and that ICI is mainly a chemical company.

The irony is that provided it were nationalised at prevailing market prices, Glaxo would cost just about as much as ICI. It is not clear whether Labour's policy-makers have grasped the *scale of the international drug* industry, or how small the NHS market is in the scheme of things.

It is a sobering thought, certainly that for the UK Government to buy Glaxo would involve doubling the public sector borrowing requirement.

The longer-term outlook for the industry, certainly, raises more questions. Attempts by governments round the world to contain the rise in health costs cannot go away; and though things may jog along for some *time yet, it is salutary to* recall that the same was for many years true of European agriculture, and that it is precisely cuts in government spending which are now hitting makers of agrochemicals and fertiliser.

There is also the open question of the yield on R & D spending—in terms not only of increased development costs, but also of the number of really useful new chemical enitities being turned up by the research process. If, as some observers expect, Glaxo applied for a full *US stock market listing this* year, it would be interesting to see what it disclosed about its research pipeline in accordance with stricter US requirements.

Part of the answer is already known—the new anxiety drug announced just before Christmas, and due on the market in as little as three years. Most other UK drug companies *also* seem fairly smug about the new products they have up their sleeves. They differ in that respect from some of their US counterparts; maybe the old British inventive knack still holds good after all.

Tony Jackson

Climbing out of earnings trough

PROFILE
BEECHAM

BEECHAM LOOKS to be just emerging from one of the most extraordinary periods in its *long history*. In little over a year it has lost a chairman and gained two more in quick succession. It has undergone a radical change of strategy and sold off a dozen of its businesses. And, despite having a stock market capitalisation of over £3bn, it has had for a while to live with the assumption, not only in the City but among many of its industrial peers, that its loss of independence was a foregone conclusion.

It now looks as if the company is climbing out of the trough in earnings which precipitated the crisis in the first place. Between 1983 and 1986 earnings per share had risen by just 4 per cent, and the share price had taken a hammering, losing half its value relative to the market over the three year period.

In November 1984, heads rolled. Lord Keith, a non-executive director with a long and powerful association with the company, procured the dismissal of the recently appointed chairman, Sir Ronald Halstead, and temporarily assumed the chair himself.

Bob Bauman, new chairman of Beecham: keeping out of the limelight so far. Analysts meanwhile are looking for full year profits of perhaps £360m

Whether or not the sacking was necessary, it was certainly clumsily done. The share price, already in the doldrums, slumped further before suddenly perking up again. Merger frenzy was in the air, and Beecham suddenly looked like a target.

The rumours were many and *ingenious, and some had an element of truth*. Unilever was said to be interested in the consumer half of the business, ICI in the drugs side. Fisons was touted as a reverse takeover candidate—or, alternatively, John Kerridge of Fisons as Beecham chairman.

Round at Beecham itself, managers were confused and angry. One moment they were running a tight, professional business, the next they were apparently incompetents who needed to be swept aside. In fact, the earlier view tended to reassert itself, as would-be predators examined the business more closely and concluded that it would not be easy to wring out the extra profits needed to justify a bid premium.

Meanwhile, Lord Keith had battened down the hatches, appointing as managing director John Robb, a veteran of the consumer side of the business, and plans were made to strip the business down to its original pharmaceutical and consumer *elements. He was also looking* for a new chairman, a nine month job which eventually resulted in the August appointment, at a rumoured £1m salary, of Mr Bob Bauman, a 55-year old US executive with long experience in the consumer goods business and latterly chairman of the aerospace and financial group, Textron.

Mr Bauman has so far kept out of the limelight, preferring to start by acquainting himself with the business. City reactions—particularly important for Beecham *at this stage*—are favourable so far, and the new chairman has been able to present profits for the six months to September up by 12 per cent, to £153.2m. Analysts are now looking for full year profits of perhaps £360m, an increase of close to 20 per cent and a welcome change from the earlier record.

At the same time, the disposal programme has rolled on with impressive speed—soft drinks, home improvements, food, mills—for a final total likely to be around £250m. That more than offsets the ambitious $400m (£280m) purchase of Norcliff Thayer of the US a year ago, and by practically eliminating net debt will leave room for further acquisitions.

The picture is a lot healthier than it was a year ago: a new top management team (a new finance director has also been brought in), a stripped-down business, a clearer strategy. But the group has its problems, all the same.

One is essentially cultural. For reasons not now easy to disentangle, there has for many years been a gulf between the two traditional parts of the business, pharmaceuticals and consumer products. Senior managers on the consumer side—John Robb, now managing director, is an example—have been thoroughly trained as international managers in consumer goods, but have no experience of working in pharmaceuticals and vice versa.

That is now to change. As John Robb says with feeling, he would not wish on any successor the task which he has faced, of learning half the business from scratch. But there is another problem, to do with the group's express preference for developing further the pharmaceutical side of its business.

There is no question that Beecham has made serious errors on pharmaceuticals in the past. In particular, as a pioneer in penicillin, it completely missed the boat on the next generation of antibiotics, the cephalosporins, and has since been driven to some ingenious expedients—such as the invention of clavulanic acid—to retrieve the position.

Despite promising new products such as the anti-arthritic Relifex and the treatment for heart attacks, Eminase, the group is not thought to have as good a drug development pipeline as the likes of Glaxo or ICI.

Nevertheless, in a welcome display of confidence, Mr Bauman has told shareholders that he will be stepping up research and development as a percentage of sales, even at the expense of the dividend payout ratio.

With a fair wind, this will be seen in retrospect as the point at which Beecham recovered its sense of direction. In a longer view, the past year may even be seen as an aberration, in which a solid company was thought by outsiders to be falling apart.

Tony Jackson

Picture by Hugh Routledge

Lord Keith with Mr John Robb, whom he appointed as managing director

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Agriculture

Farmers' harvest reduced

AS 1987 begins, signs of uncertainty and alarm are multiplying in Britain's farming community and among the host of ancillary industries serving it.

Since World War Two, British agriculture has experienced an unparalleled boom, fuelled since 1973 by a huge infusion of subsidies from the EEC's Common Agricultural Policy. Production has soared to the extent that Britain can now fulfil four-fifths of its needs for temperate foodstuffs, and is a substantial net exporter of cereals—something which would have been unthinkable less than 20 years ago.

Farmers have prospered and invested heavily in capital equipment and other production aids, which have enabled them to raise output dramatically from roughly the same amount of land.

Yet all the evidence suggests that this process has come to a halt, and may actually be going into reverse. Farm incomes have been fluctuating wildly over the last three years—they recovered last year after the collapse of 1985, though not to anything approaching the record level of 1984. But the underlying trend points unmistakeably downwards in real terms.

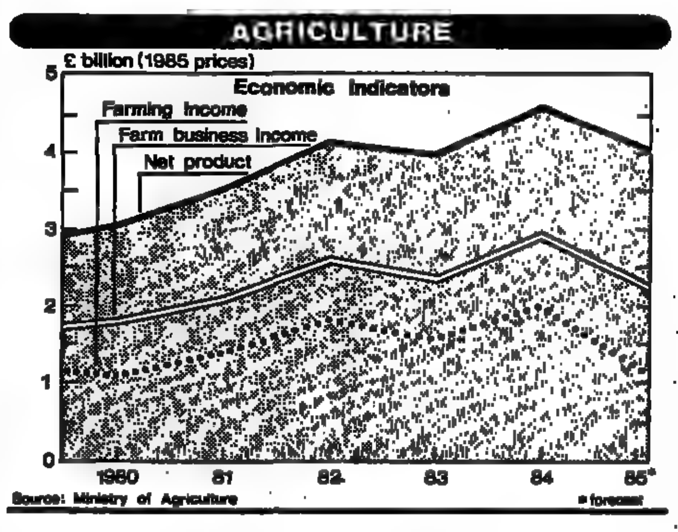
Two key indicators of farming confidence—tractor sales and land values—are looking distinctly sickly. Tractor registrations were at their lowest levels last year since records began 19 years previously. Prices of farm land, which is the industry's main asset, fell by 20 per cent from their already depressed 1985 levels.

Debt problems are causing increasing concern to the banks, which rushed to lend money to farmers during the boom. The overall gearing of the industry is still enviably low: the Agriculture Ministry estimates that farmers' debt equalled about 18 per cent of their assets last year, up from 15 per cent the previous year.

But between 8 and 10 per cent of farmers are estimated to have a dangerously high level of borrowing. And the ratio between debt and income—perhaps a more appropriate figure for the industry to watch—is creeping inexorably upwards. Sir Michael Franklin, permanent secretary at the Ministry, reckons that one-third of agricultural income is now being spent servicing debts.

On the political front—all-important because farmers depend for an overwhelming proportion of their incomes on official subsidy—things do not look too bright, either. As agriculture has become progressively more capital-intensive, it has also become less numerically important in terms of the number of votes it can command. In addition, it has been under persistent fire from conservationists in recent years for the alleged damage caused to the environment by intensive farming methods—fertilisers causing excessive nitrate levels in the water supply, for example.

While agriculture has become progressively more capital-intensive, farm incomes have fluctuated strongly during the past three years and the clear trend is now downwards



The disturbing thing is that there is no prospect of a significant improvement in any of these areas. Environmental pressure continues. The EEC duction—such as the output quotas, which have already been applied to milk.

Mr Simon Gourlay, recently-elected president of the National Farmers' Union, said in an interview a few weeks ago: "The indications for the next five years are that we'll have a battle to maintain even the existing level of profitability in agriculture."

Top of the agenda are measures to deal with the dairy and beef sectors. These are two of the most costly items in the Community budget, troubled by stagnant consumption and surplus production, and also the two most important sectors of agriculture in the west of Britain.

The EEC's milk quotas, which were imposed in 1984, but whose impact has been significantly diluted by farm ministers, have completely failed to reduce the dairy surplus, and stocks of butter and skimmed milk powder are at record levels. Sweeping plans to cut quotas further have been agreed in Brussels, causing intense consternation at the NFU and the Milk Marketing Board.

Among beef producers, the fear is that dairy quota cuts will lead to a sudden wave of cow culling, and a resulting glut on the meat market. Plans to reduce official support for the beef sector have also been agreed, despite fierce resistance.

But most people involved accept that the more fundamental, structural issues facing agriculture have yet to be addressed. Reform of the cereals sector—which is central to the CAP since cereal prices are a main determinant of costs for livestock producers—has been put on the back burner in recent months because of an unexpected rise in the market as a result of strong demand in Spain and France. But Mr Gourlay agrees that the issue will once again dominate EEC discussions this year.

Having failed to persuade his EEC colleagues to apply price pressure pure and simple to cereal farmers, Mr Michael Jopling, the British Agriculture Minister, has been trying to interest them in a plan to take land voluntarily out of production or to convert it to alternative crops, such as trees. Few believe that his idea has sufficient teeth or financial backing to succeed. Many expect that the ultimate solution will involve some sort of compulsory limitation of output such as has been applied to milk.

support remains under severe pressures, and the agricultural surpluses which are filling official warehouses and having such a depressive effect on world market prices continue to grow.

Both the European Commission and the British Agriculture Ministry are determined to continue to apply downward pressure on farm prices. And there is persistent talk of more drastic measures to control over-pro-

Above all, farmers are crying out to be given some idea of where the industry is headed over the next few years.

Andrew Gowers

Tourism

A mood of optimism prevails

THE TOURIST industry —the UK's largest leisure sector accounting for about £6bn of expenditure last year—is remarkably optimistic about its prospects this year in spite of the appalling problems it has faced over the past 12 months.

Not only was it another soggy summer for British seaside resorts but the impact of the Libyan bombing raid and Chernobyl disasters led American tourists to forsake Britain in droves.

US tourists are the largest single source of overseas visitors to the UK and anything which deters them casts a shadow over the whole industry. At one stage last summer the number of Americans visiting Britain had slumped by over 40 per cent on the previous year's figures.

But tourists are nothing if not fickle. By the last quarter of 1986 the leading hotel groups and airlines were reporting the level of US visitors coming to Britain as higher than in the same period a year before.

"It has been too easy to see nothing but gloom and doom for the British tourist industry because the number of American visitors was down," points out Mr Duncan Bluck, chairman of the British Tourist Authority.

"In fact 1986 has turned out to be the second best year ever for the tourism business in Britain."

The total number of overseas visitors to Britain in 1986 is expected to be about 8 per cent fewer than the record 15m who came to Britain in 1985 but these fewer visitors spent only 3 per cent less than the £5.3bn record set in 1985.

The fall in numbers of US visitors demonstrated how fickle tourists can be

North American visitors—who normally account for about a fifth of overseas tourists—were estimated to be about 15 per cent fewer in numbers last year and are likely to have spent about 13 per cent less in total.

"This is nowhere near as bad as had been predicted," points out Mr Robin Lees, chairman of the British Hotels Restaurants and Caterers Association.

"What the loss of the cream of American traffic meant was that it gave a salutary shock to the tourist business that it is a fickle industry they are in."

The slump in US visitors was worst felt by some of the top London hotels and traditional haunts for Americans on the tourist trail—such as Edinburgh, Bath and Stratford-upon-Avon. The effect was patchy with some hotels hardly affected while others suffered badly.

What this has meant is that the leading hotels, in particular, will increasingly in 1987 look to other markets to lessen their dependence on the American trade. Extra marketing efforts have been made by the British Tourist Authority and hotel groups to woo new trade from Australia and the Far East, for example, and with some success. By 1990, it is estimated, Japan will have exceeded the US as the world's primary outbound tourist market.

However much the tourist industry plays down the impact of the fickle US tourists, there is no doubt that another outbreak of terrorism in Europe would severely damage hopes of 1987 seeing a real increase in tourist spending.

Ironically, the British themselves appear to have recaptured their zest for overseas travel. Last year a record 10m Britons took package holidays abroad as the leading operators, Thomson Travel and the International Leisure Group fought out a much-publicised price war.

Next summer the leading operators are already confident of further real growth in foreign package holidays—even if the price war is beginning to look a little jaded. The fear remains, however, that if the extra holiday capacity is not taken up then some medium-sized tour operators could be in real trouble. This year may yet turn out, therefore, to be a much more difficult year than imagined for Britain's travel and tourist industries at home and abroad.

David Churchill

Food Processing

Suppliers take the strain

THE SHIFT in the balance of power in the UK food industry from manufacturers to retailers is complete. The shopkeeper, once a passive channel through whom goods travelled on the way to the home, is now the dominant power in the trade, in many cases strongly influencing—even governing—the entire cycle of a product's development, marketing and distribution.

"Life is more difficult for suppliers and they are having to think more carefully," says Mr Mike Connolly, marketing director at J. Sainsbury. "Ten years ago, manufacturers sold to the trade through a few ads in The Grocer, but things are different now. If they want to launch a new product in the London TV area, they have no chance unless they persuade supermarkets to take it."

The process of persuasion involves thinking clearly about the chains' space problems, their individual operating style and the margins they demand. "Retailers do not like all being addressed in the same way."

Manufacturers have had almost 20 years in which to familiarise themselves with the characteristics and demands of the handful of retail groups which now handle about 80 per cent of all packaged groceries sold in the UK.

The lessons have not always been easily or willingly learned. Considerable resentment has been generated as processors have lost their hold on the food market and their franchise with consumers. Mr Connolly is optimistic, however; about future relations between manufacturers and retailers: "We hear people on both sides of the fence saying we are over the hump. The concentration of buying power and the development of retailers' own brands are a fact of life and manufacturers are beginning to cope with it."

Dr John Randall, managing director of Avana Foods, seems less sure. He says Britain needs an equivalent to the Robinson-Patman Act which governs markets in the US. "It's like the nuclear deterrent. Manufacturers cannot enter cartels, but retailers cannot enter groups or demand discounts that are not related to economies in manufacturing or transport."

However, as a long-standing leading supplier to all the main supermarket chains, Avana has learned certain key lessons. "Our links will continue as long as we innovate and respond to retailers' demands and pressures," Dr Randall says. "Our customers goodwill exists by proxy. As long as I am aware of that and live with it, then we should be all right."

While many food processors are coming to terms with the new order, there is still an elite group of mainly multinational companies which has retained the consumer franchise and prospers on the high margins which premium branded products give them. Major names like Heinz, Mars, United Biscuits, Andrex, Pedigree and Rowntree-Mackintosh which promote themselves directly to the consumer over the heads of the retailers are assured of a continued strong presence as long as they maintain their development and marketing efforts.

This is a costly business, and demands muscle which few "ordinary" food makers can match. Rowntree, for example, spends as much on promoting one product, the Kit-Kat bar, as Sainsbury's does on its entire own-label range.

"The best branded products are invaluable to the supermarkets. As Mr Connolly says, they pull people through the stores, past the ranks of own-label products and other goods on offer. However, he adds: "The number twos and threes have lost the brand franchise... Sainsbury's own label, for example, is now invested with the qualities formerly given to household names."

Dr Randall takes a different tack. Avana's Robertson's jams are almost as well known as Mickey Mouse in international markets, he claims. They are still seen on all British supermarket shelves. But, he complains, retailers expect Avana to maintain its consumer advertising efforts while they use the products for cut-price promotions.

"They want us to keep up customer interest... but half the shelf space is taken up with own label. They are asking us to spend money to cut our own throats."

He has other complaints. If he produces a successful new branded product, he says, retailers will soon demand a private label version. If he demurs, concerned about recouping his research and development and capital investment costs, the retailer will ask another manufacturer to make a copy. "If I agree, then they drop the real poison pill and say 'this is an important line for us, we want to multiple-source it'."

On the other hand, he seems content with his role as a supplier of own-label products, and Avana has recently benefited from the application of a variation on the "poison pill."

Links with major retailing names give Avana opportunities in markets which it would not otherwise be able to touch. Avana alone would not, for example, be able to launch a rival to Kit-Kat or the Mars Bar. The multi-million pound launch costs and inevitable backlash from the big names would be too much. But earlier this year its link with Marks and Spencer gave it a valuable new line. Break, a product which bears an uncanny resemblence to Kit-Kat, is on sale in most M&S food departments. "You can see what we are plagiarising. The MCC might say it was underhand. Even I think its slightly ungentlemanly. But it's selling like crazy," he says.

While the two sides have been coping with the changing structure of the industry, the food market itself has been undergoing a transformation. To all intents and purposes it is now a fashion market. Governed by demographic, social, economic and aspirational factors, it is correspondingly volatile. Suppliers must be correspondingly nimble to meet demands for healthy, salt-free, uncoloured, fresh, ready-to-heat-and-eat foodstuffs from the broadest spectrum of ingredients.

Some of these markets may not be large, but they can be highly profitable. Fresh produce, for example, where multiples are advancing rapidly, offers gross margins of about 40 per cent.

As Mr Connolly said two years ago: "The days of true mass marketing are numbered... It is no good aiming our products at ill-defined (but attractively large) lumps of people... We all have to learn to target our products and services more precisely."

His point has been taken up in a recent study by stockbrokers Wood Mackenzie which preaches the merits of closer co-operation between manufacturers and retailers.

"The co-operation route can be rewarding for both parties," it says. "As the multiples seek to increase their share of total food sales by means of more fresh food offerings, so some manufacturers and distributors are undertaking to iron out inefficiences in the supply chain (arising from fragmentation, over-capacity or under-investment, or all three), so as to be able to respond innovatively and flexibly to changing consumer demands."

Co-operation, it argues, offers manufacturers real growth in a static market which does not depend on big acquisitions, risky diversifications or head-on battles with competitors for consumer goodwill. Non-co-operation spells the end for smaller brands and processors.

"As and when these players are squeezed out, so we might expect to see the consequences of a supply chain which is concentrated throughout—from retailer to distributor, to food processor—bearing down on the farmer himself," Wood Mackenzie suggests.

Then we shall see the most painful adjustment of all as the farmers are forced to integrate into the supply chain "to supply what the customer wants—rather than what has the best EEC intervention price."

Christopher Parkes

OVERSEAS TRAVEL AND TOURISM

'000s

	Overseas visits to the UK	Area of residence			Visits abroad by UK residents	Area visited		
	Total all visits	North America	Western Europe	Other areas	Total all visits	North America	Western Europe	Other areas
1981	11,452	2,105	7,055	2,291	19,046	1,514	15,862	1,671
1982	11,636	2,135	7,082	2,418	20,611	1,299	17,625	1,687
1983	12,464	2,836	7,164	2,464	20,994	1,023	18,229	1,743
1984	13,644	3,330	7,551	2,763	22,072	919	19,371	1,781
1985*	14,483**	3,797	7,904	2,782	21,771**	914	19,105	1,752
1986* Jan-Aug	9,559**	1,991	5,733	1,836	16,530**	741	14,530	1,261

* Provisional figures. ** Not seasonally adjusted. Seasonally adjusted figures are: total all visits to the UK: 9,275. Visits abroad by UK residents total all visits: 16,388.

Source: British Business, November 1986.

For the computer market, the coming year should bring an all-out battle in the 'clone market' (IBM and IBM-compatible personal computers) with Amstrad's low-cost machines also becoming widely available

Information Technology

Competition intensifies in all sectors

THE BATTLEGROUND will become even fiercer this year in the main sectors of the British information technology industry—consumer goods, computing, telecommunications and components.

But the pressures making for more intense competition vary from area to area. A key issue is whether the struggle becomes so bitter that some of the main contestants will be forced to enter new alliances or even to leave the field.

Jim Maxmin, who heads Thorn-EMI's high street rental and retail operations, said that he could not imagine even more competition in the already hyper-competitive UK consumer electronics market. "It is almost inconceivable what intensification would be," he says.

Yet Dr Maxmin expects an easing of the growth in demand for colour televisions this year, partly because of the phase reached in the replacement cycles and partly because cost pressures, particularly in tubes, could force up prices. Only a consumer spending boom fuelled by a give-away pre-selection Budget will significantly boost the market, he reckoned.

Others are more sanguine. BIS Mackintosh, a market research company, said that colour TV sales could approach 4m this year, the highest ever level (sales were 2.5m by the end of last September), with second set demand still spearheading growth.

BIS Mackintosh also expects continued rapid growth in video recorder sales (sales boomed to 1.2m sets in the first nine months of 1986, compared with 900,000 in the same period of 1985).

But the fastest growing market will be sales of compact disc players, where the recent boom has been even more dramatic than in sales of video recorders earlier on in the decade.

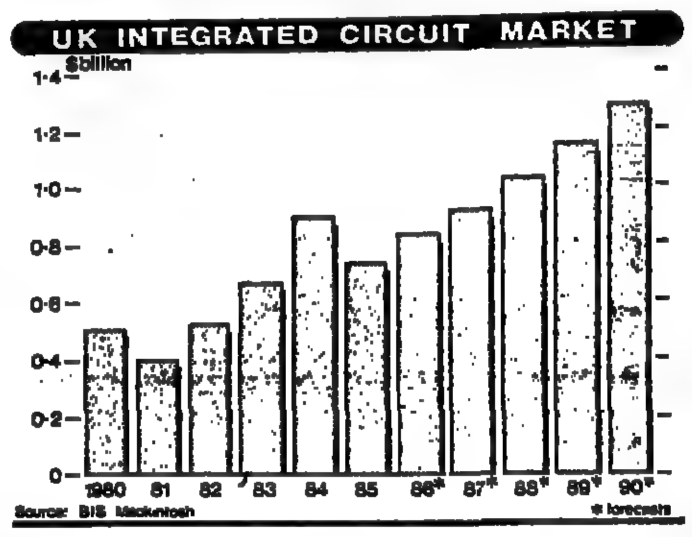
When the final figures are in, compact disc player sales last year will probably have topped the 500,000 mark, up from 147,000 in 1985, said the British Radio and Electronic Equipment Manufacturers Association.

However, the pickings for British companies from these consumer sales are relatively thin. Last year, 55 per cent of colour television demand and 87 per cent of video recorder demand was met by the Japanese alone, according to one estimate. With profits tumbling at home, the battle between Japanese manufacturers for the British and European markets is likely to intensify.

Expect, too, a fierce struggle in computers, though it is far from clear that the downturn experienced in the US will hit Europe in the same way.

This year should bring an all-out battle in the clone market (IBM and IBM-compatible personal computers). Amstrad's low-cost machines should finally be coming through in enough numbers to see whether they will create mainly new demand or take share from existing companies. IBM, whose share of the PC market in Britain fell from 48 per cent in 1985 to 40 per cent last year, according to Dataquest, the market research organisation, may fight back.

IBM may also cast its shadow over the UK software industry. "IBM is going through a hard time and that's bad for us because it will be looking to get increased revenues from the services side," said Dr Doug Eyeions, director general of the Computing Services Association, the software trade association.



He expects software demand to be up 20 per cent in 1987, a slight easing on the 23 per cent growth rate of 1986, though with faster growth in some areas, such as value added services.

There may also be some softening of growth at the top end of the computer market, the mainframes and departmental systems, which saw sales growth of about 10 per cent and 15-20 per cent last year, according to one estimate.

However, this is nothing like the sort of downturn recently experienced in the US, implying that British and European companies will continue to follow a different spending pattern on computers than their American counterparts. Indeed, ICL, the largest British-owed computer company, expects about a 3-5 per cent increase in capital spending on information technology systems overall this year, as buoyant company profits feed through into investment.

The David versus Goliath contest between newly established Mercury Communications and British Telecom will dominate UK telecommunications this year.

Judgment had to be suspended last year about this new competition because Mercury launched its alternative phone network only in May. By the end of this year, it should be clear whether Mercury will prove an effective competitor to BT.

Perhaps the best test of the intensity of the competition is whether there is a repetition of last year's price manoeuvres, which saw Mercury cutting its long-distance rates as soon as BT had been given the green light to change its tariffs.

Competition, so far, has centred on the larger business user. Together with exceptional pressures such as the surge in telecommunications demand before Big Bang, this has fuelled growth in some value added services, such as fax and electronic mailboxes. Such growth looks set to continue this year, as will the spectacular boom in mobile communications.

Conditions are likely to vary in the various parts of the telecommunications equipment market. At the top end, public switches, the speed up in BT's installation programme should mean decent orders for GEC's and Plessey's System X, and for its competitor, Thorn-Ericsson's System Y, but GEC and Plessey will still be under intense pressure to rationalise their operations.

However, the story may not be so rosy for manufacturers of private exchanges.

Reforms now in hand to speed up the dismally slow procedures for approving new private exchanges entering the British market may have an impact just as that market goes into a nose-dive. MZA, a specialist telecommunications market research consultancy, is predicting that private exchange sales will be £107.9m in 1986-87 and £98.9m in 1987-88, down from £138.6m in 1985-86, mainly because BT swamped customers with new private exchanges in the early days of liberalisation.

Demand for telephone handsets should continue to grow, but UK manufacturers will do well not to lose more of the newly liberalised market to Far Eastern imports.

Last year was a story of "hope deferred" for the UK component industry, according to Mr Ivor Cohen, managing director of Mullards, the UK subsidiary of Philips of the Netherlands.

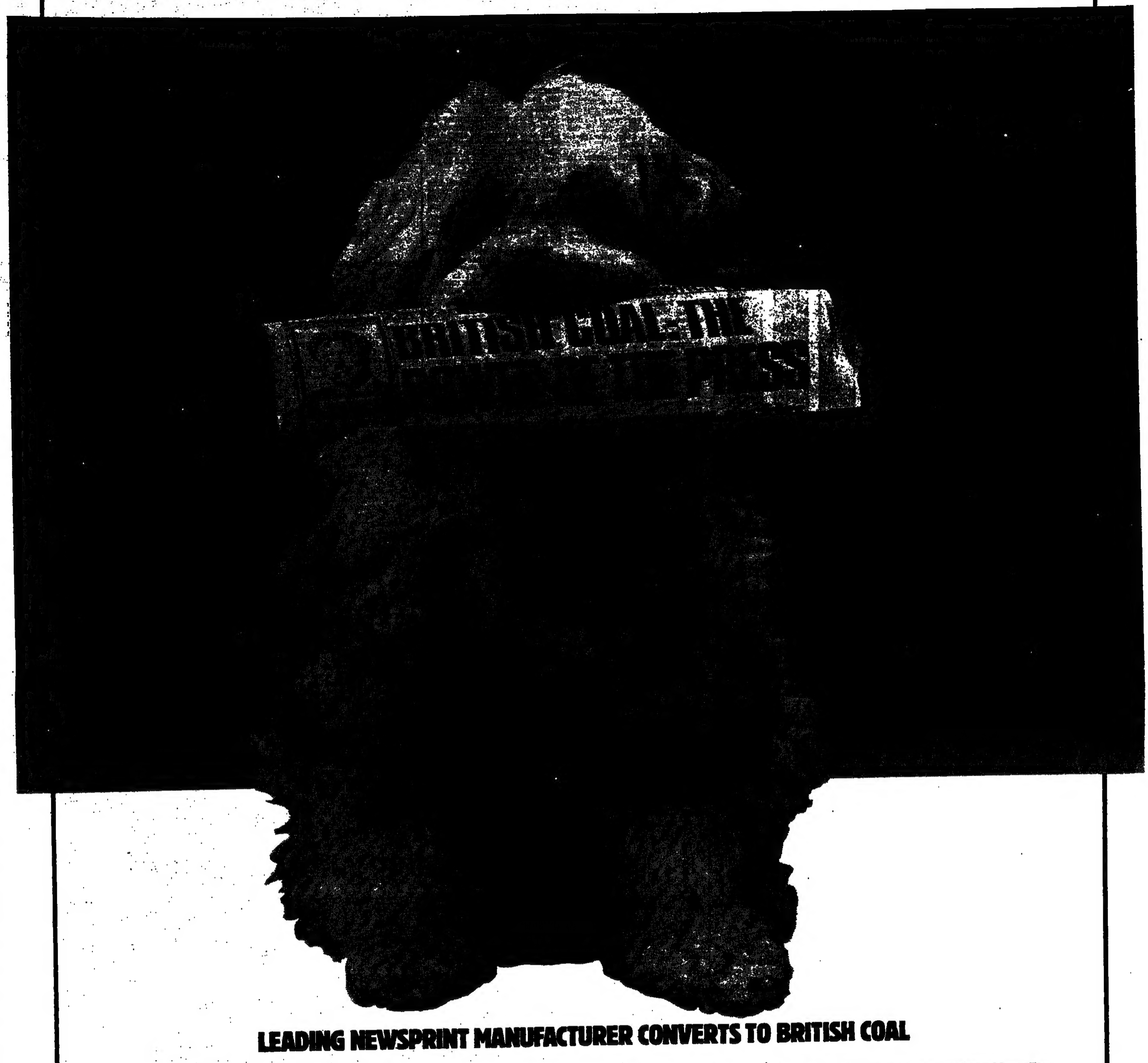
The hope that the component industry would leave behind the traumas of 1985 went unfulfilled for a number of reasons, according to Mr Cohen, including: the faltering of the overall economy; much better inventory management by customers, with the introduction of just-in-time systems; a decline in prices; and a tougher attitude on the part of important customers such as the Ministry of Defence and British Telecom.

Mr Cohen hopes that a falling pound may feed through into more orders for the British equipment industry and, hence, for components. However, many of the factors which blighted last year will still be operating. BIS Mackintosh is forecasting 10 per cent growth in the key integrated circuit market, lower than some other forecasters.

Overall, then, conditions will be tough in most sectors of UK information technology, posing a severe challenge to the British supplying industry. In the last 10 years, the UK's IT industry has grown by about 12 per cent a year, apparently a creditable performance, but, in fact, less than the main Continental countries, the Americans and the Japanese.

In an increasingly rough world, it will be surprising if British companies do not agree more joint ventures to spread their costs this year. However, with the room for manoeuvre among the large UK electronics companies reduced by the rejection of GEC's bid for Plessey, these joint ventures may well be with non-British companies.

David Thomas



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Building and civil engineering

Upswing in the private sector

ANY ATTEMPT at forecasting the prospects for building and civil engineering has to begin by dividing the industry into two.

The industry's two sectors—building, which is largely dependent on private spending, and civil engineering, which is traditionally dependent on public sector spending—behave in different ways, and are likely to continue doing so.

Over the past few years, building—particularly building offices, shops, factories and houses for sale—has boomed, while the traditional busineses of civil engineering, such as roads, dams, bridges and sewers, has slumped.

The pattern looks likely to continue in 1987. The industry forecast from the National Council of Building Materials Producers (BMP) predicts that there will be a 4.5 per cent increase in private housing output in 1987 to follow this year's 9.5 per cent growth to 175,000 new private sector starts, the highest level since 1973.

The combined effects of the Big Bang, increasing demand for office space, and a growth in real incomes of between 3.5 and 4 per cent mean that the BMP is also predicting a 12 per cent growth in new commercial building in 1987. This follows the 12 per cent growth in 1986 in the industry's output of new offices and shopping centres.

The only privately funded building sector in which a downturn is predicted is new industrial building.

This has been one of the industry's star performers, showing a 14.8 per cent growth in 1985. But with the final phasing out of capital allowances and downturn in oil industry investment, new factory building shrank by 13 per cent in 1986 and is predicted to fall by further 5 per cent in 1987.

Compared to the generally optimistic outlook for the private sector, the outlook for sectors dependent on public spending remains gloomy.

The local authority house building programme has fallen to its lowest level for years. About 23,000 council homes were built in Great Britain in 1986 with the same again due in 1987, compared with 107,400 in 1978.

Other building sectors dependent on public spending are expected to remain static. Following a 5.6 per cent drop in 1985, public building programmes are expected to have shown a 1 per cent increase in 1986, with the volume of work likely to remain unchanged in 1987.

Despite the gloomy public sector indicators, however, the outlook for civil engineering could be improving: as a result of private spending.

After years of refusing to allow private finance for public projects in the UK, the government has now given the go-ahead for two major infrastructure projects to be funded by contractors.

The first—and largest—is the £5bn tunnel under the Channel to be built by the Eurotunnel group of 10 of the largest construction companies in Britain and France.

The second—and most important in its implications for civil engineering in the UK itself—is the £200m suspension bridge across the River Thames at Dartford in Kent to be built and financed by Trafalgar House.

"This is the first time we have involved the private sector fully right at the start of a major new project not only in designing the scheme but also in financing it," said Mr John Moore, Transport Secretary, as he announced the success of Trafalgar's bid.

His decision has opened the way for private finance for other big infrastructure projects. Contractors are now looking at the possibility of a privately funded £100m plus bridge across the Severn, and a £5bn barrage to use its tidal power.

These moves are important in that they give civil engineers the chance to be more entrepreneurial in creating their own work.

But there are also suggestions that, in the run up to a general election, the traditional public sector workloads could improve as the government spends more on roads, bridges, sewers and housing.

There are scant signs of this so far, however. In the autumn budget, the money available for national road building was increased by £5m in 1987-88 and £15m in 1988-89 over the White Paper forecast.

The budget in the coming financial year for the local authority roads was increased by £60m over the White Paper forecast, and the allocation for road maintenance work by local authorities was raised from £1,090m to £1,260m. Spending on the water industry is to remain very tightly controlled.

Although the Chancellor announced plans for increasing spending on housing, the additional sums made available — £451m extra to cover both pubic sector house-building and council house renovations — looks small in the light of the Audit Commission's estimate of a £20bn backlog on council house repairs.

The construction industry's indisputable success of 1986—and one of its brightest hopes for 1987—is private sector housebuilding. This substantially underpins the major contractors' profits and looks set to continue doing so.

According to analysts, Wood Mackenzie, some 40 per cent of the profits of Britain's largest contractor, George Wimpey, come from building homes for sale. Private sector housebiulding also privdes an estimated 25 per cent of profits for Tarmac and Trafalgar House. 36 per cent for C. H. Beazer, and 40 per cent for John Laing.

Private sector housebuilding starts are now at their highest level for 12 years, with 175,000 new homes being started in 1986 compared with 161,800 last year, according to the National Council of Building Materials Producers.

The House-Builders Federation is predicting that a total of more than 160,000 new homes for sale will be built in 1986, compared to the 1985 total of 149,600 private sector completions.

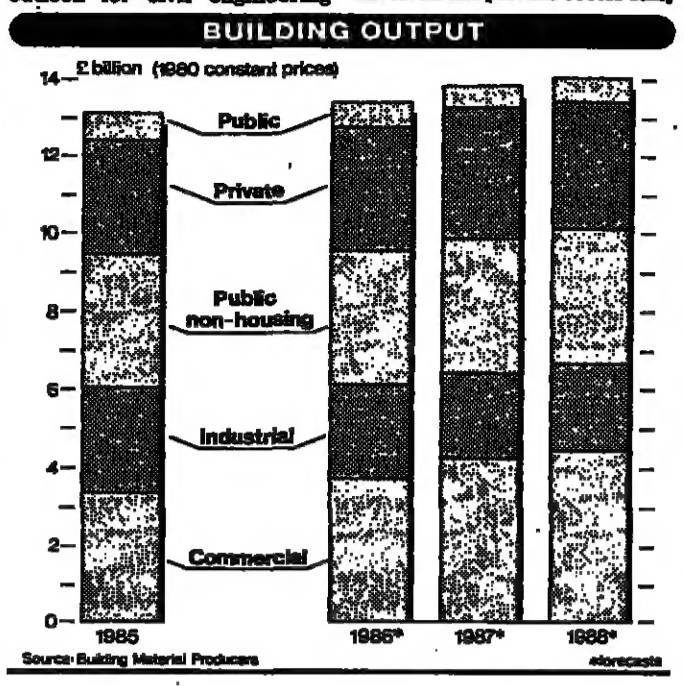
And the housebuilders are expecting an even more buoyant year in 1987.

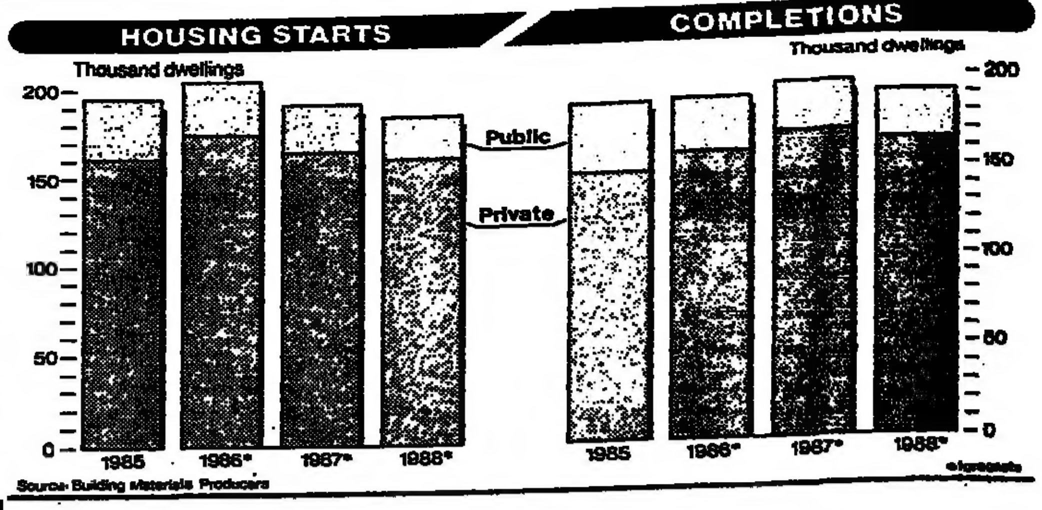
The federation's latest survey of its members showed that 42 per cent were expecting to increase the number of houses they build.

The only major constraint on the industry, they said, was the shortage of building land in the tightly green-belted south east where demand is strongest.

But, after a year in which the rising price of scarce building land has helped push house prices up at four times the rate of inflation, this means buoyant profits for the housebuilders, and the trend looks set to continue in 1987.

Joan Gray





A year of dramatic expansion

PROFILE

C. H. Beazer

MR BRIAN BEAZER, chairman of C. H. Beazer, is one of the most singular figures in the building industry in Britain: a creator of empires whose hobby is theology and whose conception of his company has much in common with Woody Allen's humorous description of a shark: if it stops moving, it dies.

In just five years, and with a string of acquisitions, Mr Beazer has built a business with a turnover of £1.2bn, starting as a West Country housebuilder with a turnover of £48m in 1982.

The most dramatic growth has happened this year, which began with a turnover of £192m.

In January, he bought the French Kier civil engineering and building group for £146m and in August the Christian Salvesen housebuilding group for £11.6m. In September, he made his biggest acquisition to date.

The US construction materials and aggregates company Gifford Hill was acquired for £190m, giving Beazer the sixth largest cement producer in America, and moving him nearer his grand design of heading a business with "the widest possible spread in the construction industry."

He resists the "siren voices I keep hearing, saying why not buy a departmental store. If I owned one I wouldn't know what to do with it, and believe in sticking to the business I know.

"If you are trying to become a major in the construction industry you have to straddle the whole of the market and so it was clear we ought to be in aggregates, and we wanted more assets in the growing market in the US," says Mr Beazer.

Now Gifford Hill is in place, Beazer is not in the short term looking for further acquisitions and will wait until it is sure it has assimilated its existing purchases.

But Mr Beazer admits that though he is not contemplating any major acquisitions, "that does not rule out small acquisitions for cash."

Gifford Hill, for example, is currently negotiating to acquire more aggregates reserves by buying a couple of small companies costing £2m to £3m.

When, in 1978, Mr Beazer joined the housebuilding company his father founded it was turning over £150,000 a year. It was also sufficiently successful for him to be able to say that his father was "the only mason I know who carried his tools in a Rolls-Royce."

While his father, however, was the type of man who "thought if you could afford a decent car, house, three meals a day and five suits, what more do you want," Brian Beazer admits, he by contrast is ambitious. "I've always suffered from ambition. I've never been poor, I just wanted to grow something."

All this has created some apprehension in the City that the empire is too much one man's creation, and too dependent on his vision alone.

To an extent, there is some truth in this, but Mr Beazer has an answer.

"When contemplating an acquisition I ask myself first if I want it, second if I can afford it and third can it be done—and then I turn to my advisers. They are important, but it's a rare deal that is thought of by an adviser."

When he was planning the takeover of French Kier, Mr Beazer carried all the information he needed writ very small in the three diaries in his briefcase which control his whole working life.

Diary number one lists the things he has to do; diary number two lists what he needs to do when he gets there; and diary number three contains the record of what happened when he got there.

"And I have in there all the relevant information for my decisions," he says. "I'm not a modern man. I don't have a sreen on my desk—just pens and books."

For Mr Beazer—the name is Huguenot, from a line of building Beazers of whom the first in England was recorded baptising his son in 1792—does not believe in encumbering himself unnecessarily.

"And so I say theology is my hobby, with history, because it's easy to take an interest in it because I can buy a book and read it on a train."

And he means it seriously: the "theology of the level of Prof Hans Kung," not Bishop Jenkins' good knockabout stuff about the Virgin Mary that's more suitable for general discussion."

Once he has got his companies, he believes in leaving his managers to themselves.

"Once companies have agreed their budget with us then it is up to them to run their businesses exactly as they wish. I tell them I don't want to be bothered with the details of how they do it—but we'll soon tell you if you're not doing it."

It is a style his managers say they appreciate. "We want to be businessmen and make money, not just builders or civil engineers," says Mr Richard Allen, chairman of French Kier.

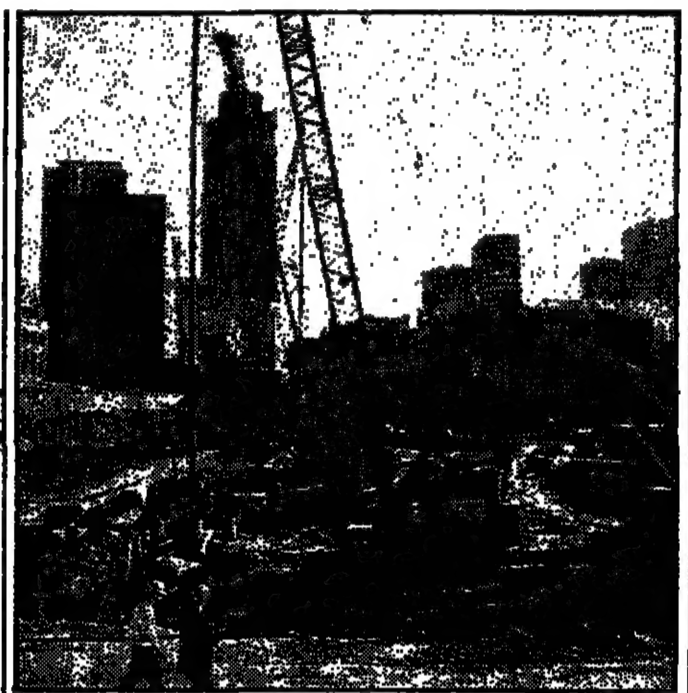
"Mr Beazer gives us quick decisions and he has made the transformation from a company run by one man to a company owned and run by a lot of people who are set targets. He has changed his style of management to suit his company's growth; he delegates, is open, and we know where we stand."

The delegation is backed up by strict financial controls. Mr Beazer receives from his distant satrapies monthly management accounts, weekly cash accounts, monthly expenditure and investment accounts, and monthly reports on sales.

"And if a subsidiary is not performing well, it is up to the head of that division to correct that deficiency. If the whole division were not performing well, that would be of grave concern to the group—but one or two out of our 70 subsidiaries is a matter for their management."

"We at all times have one or two of our subsidiaries not performing. But the test of a viable construction, of anything from a marriage to a house to a company, is what happens when the parts go wrong and don't perform. That's the acid test, but the situation has not arisen yet."

Joan Gray



Site clearance in the City of London to make way for the increasing demand for new, prime office space

Retailing

Easy credit fuels sales boom

BRITAIN'S RETAILERS remain bullish about the buoyancy of consumer spending in the shops in the early part of 1987. After yet another bumper level of pre-Christmas spending—the fifth year in a row that December sales have hit record levels—UK store chiefs are looking forward to a pre-election spending boom over the next few months helped, perhaps, by give-away Budget.

The retail industry in 1986 has continued to be one of the most buoyant of all UK industrial sectors, and expects to show a 4 to 5 per cent volume increase in sales over the 1985 level, with perhaps a 3 to 4 per cent growth in 1987.

Such buoyancy, however, did not mean that growth was steady: in fact, many major retailers report that trade in the Autumn was surprisingly below par.

The (mild) weather, as usual, was blamed for this relatively poor performance and the late start to the Christmas shopping, although the TSB and British Gas flotations may also have helped to depress spending.

But some retailers are privately becoming worried that the retail boom of recent years may at last be showing signs of running out of steam.

The spending boom has undoubtedly been fuelled by wage rises running well ahead of inflation as well as other factors such as the black economy. Yet it has also been largely financed on credit, both from the traditional credit card companies as well as from the growth of in-store charge cards, of which Marks and Spencer's has proved the most popular.

What concerns retailers is not only that consumers will increasingly find credit repayments difficult to manage but also that the next Government—of whatever nature—may decide to apply the brakes to both easy credit and rising incomes.

Such worries, however, are unlikely to deter some of the leading players in the retail game from taking the opportunity over the next 12 months of reshaping the retail trade more to their liking.

Mr Stanley Kalms, chairman of the Dixons Group which failed to win control of Woolworth's last summer, may have sufficiently recovered from that defeat to try again with another target.

Dixons is one of many major retailers which are desperately short of prime trading space and see acquisitions as the easiest and most effective way of boosting selling areas. Such retailers have a proven marketing formula and tight management controls which can be applied to those retailers who still lag behind the accelerating pace of change in the High Street.

One of the top retail targets for 1987 must still be Boots. The company's management has worked hard over the past year to remedy some of the more obvious trading problems within its retail operations—but with only a limited success in the view of many observers.

Other takeover targets much talked about are W. H. Smith, the Sears Group, the Littlewoods chain stores, and again Woolworth.

Sir Ralph Halpern, chairman of the Burton Group, is one of the retail entrepreneurs of the 1980s whom the City is watching closely. Having started to come to grips with revamping the Debenhams stores acquired in 1985, Sir Ralph may again be in predatory mood.

But Sir Terence Conran, chairman of Storehouse, may stay on the sidelines during the next 12 months. His revitalising of the British Home Stores chain has taken longer and proved more difficult than expected and he may wait a little longer before making his next move.

However, Mr George Davies, chairman of the Next Group, is widely seen as still hungry for mergers or acquisitions, despite his link up with the Grattan Group to develop mail order operations. One of the retail "knights" who may be taking a less high profile this year is Sir Phil Harris, chairman of Harris Queensway. He looks likely to move his retail operation even closer to the secretive Great Universal Stores which perhaps sees Sir Phil as adding the next generation of flair to the GUS empire.

Two other aggressive entrepreneurs to watch in 1987 remain Mr Alec Monk of the Dee Corporation and Mr James Gulliver of the Argyll Group. Their interests in 1987, however, may lie more in ventures overseas than in the UK. But while many leading retailers are still looking for growth by acquisition, the UK's two leading chains—Marks and Spencer and J. Sainsbury—both eschew that growth route in this country. Neither retailer, moreover, shows any signs in 1987 of letting go their grip.

Marks and Spencer, in particular, is likely to continue to gear up its trading performance under the guidance of Lord Rayner. But, expect Marks to move further into mail order this year as well as developing its specialist "satellite" stores.

In the wider context, few retailers expect to see the Sunday trading issue resolved in the next 12 months, although many of those in favour remain optimistic that the next Government will try to reform the shops legislation in a way that meets the interests of all parties. There are a number of compromise proposals around which only require political will to bring it about.

The attractiveness of seven-day-a-week shopping may be enhanced if the retail boom grinds to a halt after an early election and retailers claw desperately for all the trade they can get. If that happens, however, then 1987 may see the beginning of the real store wars between chains fighting for custom.

Christopher Parkes

Pre-Christmas spending levels broke all records, but much of it was financed on credit

The guessing game continues

PROFILE

Great Universal Stores

Picture by Roger Taylor

Sir Philip Harris, entrepreneurial stores chief, is now on the board of Great Universal Stores. In May, Great Universal sold its Times Furnishing and Home Charm stores to Sir Philip for a 23 per cent stake in his Harris Queensway group.

IT WAS the deal with Sir Philip Harris, the entrepreneurial stores chief, which really fired the City's imagination.

Rumours that Great Universal Stores was paving the way for major change had already been growing. Speculation was fuelled by the injection of younger blood on to the board of directors last December, and the decision in April to hand over the management of Gus's Paige womenswear shops to Combined English Stores under a joint venture deal.

Then in May Gus sold its Times Furnishing and Home Charm stores to Sir Philip for a 23 per cent stake in his Harris Queensway group and Sir Philip joined the Gus board. The tongues of analysts and fund managers were set loose.

Did this mean a merger between Gus and Harris Queensway was in prospect? Was Sir Philip now the heir apparent to Lord (Leonard) Wolfson as head of Gus?

Then there was the old chestnut: was the company preparing to enfranchise the A shares, the existence of which enabled the Wolfson family and the charitable Wolfson Foundation to exercise more than 50 per cent of the votes while holding just 1 per cent of the share capital.

Eight months later few more clues have emerged about the future direction of Gus and the questions remain unanswered. That means that one of the City's favourite guessing games has continued into 1987. It may well go on beyond.

The intense interest in the Gus group stems in part from its enigmatic nature. Gus is to UK retailing what Greta Garbo is to the film industry: it keeps itself to itself and detailed information about its activities is hard to come by. Like everyone else the financial world loves a mystery.

But the real attraction of Gus is its size. Capitalised at more than £2.86bn it ranked number 17 in the FT's November survey of the UK's top 500 companies. A large amount of institutional funds are therefore invested in Gus.

The main influence behind Gus's success has been Sir Isaac Wolfson who joined the group in the early 1930's and he became chairman in 1946. He only stepped down from the board last week. The company's main strength is its mail order division, which accounted for about half of last year's £290m pre-tax profits from trading activities and claims more than 40 per cent of the UK market.

The Gus empire also takes in Whiteaway Laidlaw, one of the largest consumer finance houses in the country outside the main clearing banks, and CCN, the highly rated credit information service. Retailing interests include Burberrys, Scotch House and Lennards shoes shops.

Over the years Gus has been one of Britain's most consistent companies. It has increased profits in each of the last 36 years and it has one of the strongest balance sheets in the country.

In the City, however, Gus is viewed as unexeciting and its shares trade at a considerable discount to the retailing sector average. Some analysts feel Gus's management is overcautious and lacks aggression. For examples, they point to the company's quietness on the takeover front and its failure to move into out-of-town retailing.

Gus has a swift response, however, to those who suggest that it is a slumbering giant. "How can you be a slumbering giant when even in times of economic hardship you continue to increase profits," says Mr Harold Bowman, assistant managing director. Comparison with high street retailers in recent years is unfair, he says, because of Gus's concentration on mail order, demand for which declined in the early 80s.

In the year ending in March Gus seems likely to exceed comfortably the 10 per cent average annual growth it has achieved over the last five pears. The Harris Queensway deal will probably add at least £5m to the pre-tax total. There will also be benefits from the resumed growth of the mail order industry and the expansion of Burberrys. Analysts are looking for about £335m (excluding profits from property transactions) against £290m last year. In 1988, £385m is achievable. Making predictions for other matters concerning Gus is rather more difficult.

If Sir Philip does take over at the top it is likely to be later rather than sooner. Lord Wolfson, a shy and retiring man, is thought unlikely to want to stay as active at Gus as Sir Isaac, his father, did, but he is still under 60. The board will also want to see how Harris Queensway copes with the Times Furnishing and Home Charm acquisitions.

But Sir Philip's succession is by no means certain. One theory is that Gus will remain much as it is, either with Lord Wolfson or someone else already with the group at the helm. If this happens the A shares may remain voteless. Gus is one of the few top companies which still has non-voting shares but it is not bound by law to enfranchise them.

Another theory is that Gus wants to link enfranchisement with a comprehensive restructuring of the company. According to Mr Zak Keshavjee, Gus watcher at broker Savory Milln, the group may soon embark on a series of disposals or flotations which would allow it to retain a stake in its various activities.

By carrying out an asset restructuring itself the company would pre-empt any bid which enfranchisement might encourage, says Mr Keshavjee. Sir Philip's role would probably remain as it is today, that of a non-executive director.

On this theory, as on all others about the group's future, Gus can offer little guidance. "It is all just speculation," says Harold Bowman. "We do not know what will happen."

Michael Smith

Innovative features have ensured a buoyant demand for electrical goods by consumers

Electrical goods sector

Another good year ahead

FUELLED BY rising real incomes and easy credit, and driven along by aggressive marketing and retailing, UK sales of electrical goods have enjoyed two consecutive years of strong growth.

Appliances have been helped by the introduction of innovative features into basically dull products and increased fluidity in the business market. Home entertainment, boosted by the broad acceptance of compact disc players, was given an extra lift earlier in the year when the Royal Wedding and World Cup football prompted fresh demand for television sets.

"I cannot help feeling that if incomes continue to outstrip price inflation, the market will continue to show growth," said Mr John Ramsbottem, director of Audits of Great Britain, the research group.

Reflecting on last year's 10 per cent increase in sales of home laundry and dishwashers, Mr Jim Collis, director general of the Association of Manufacturers of Domestic Appliances (Amdea), is optimistic, too.

"Assuming the Government is not going to allow the consumer boom to peter out, we should get our fair share," he said.

The cautious tone of these forecasts reflects the traditionally conservative nature of the UK industry, and conceals the fact that British manufacturers of household appliances are better placed to drive back the competition and exploit new sectors than at any time in the past 10 years. The consumer boom apart, they have several other factors working in their favour:

- The relative weakness of sterling has blunted the competitive edge of the Italians and West Germans, prime movers in the British market. Prices of imports have been slow to go up, particularly from Italian manufacturers, but they are moving and more increases are expected in the spring.
- This has compounded the problems of Indesit, once an important force in the UK, and driven down its market share to the benefit of indigenous manufacturers.
- Hotpoint, the GEC subsidiary, has set an example of marketing aggression, and shown the effect that this can have when combined with innovative products. Its combined washer-dryer, for example, is believed to be market leader in this rapidly growing laundry sector after only a couple of years in the shops. Hotpoint's efforts contributed greatly to the doubling of sales this year to about 400,000 machines. Five years ago the Italians had the trade to themselves.
- British manufacturers' successful efforts to develop the microwave oven market largely prompted by Japanese imports and manufacturing bases in the UK have given the country a lead in this new sector.

Electrolux, the biggest appliance maker in the world, recently recognised this when it opened new facilities in Luton and named the plant as its main microwave manufacturing centre for Europe and Scandinavia. About 70 per cent of output will be exported.

These factors give British manufacturers an opportunity to invest and either build new plant or win market share by spending their price advantage on promotion or price cuts to widen the gap between them and their competitors.

The currency advantage also presents an opportunity to rebuild exports, although most British companies still appear to be preoccupied with filling home demand.

However, caution is necessary. Overseas suppliers will not readily surrender share in one of the biggest markets in Europe. They hold 45 per cent of the washing machine market, most of the trade in built-in cookers, and almost 100 per cent of the dishwasher business.

Their readiness to absorb for some months all or part of the losses on exchange rates gives an indication of their determination.

There are also several unknown factors which raise the prospect of the return of straitened circumstances. Mr Alan Sugar, head of Amstrad, is planning to follow his electronics successes with a range of imported goods early this year. On his past record, these products should be good, well-marketed and cheap.

Leading Japanese manufacturers, such as Hitachi and Matsushita, are also known to be seriously considering entering the European appliances market, and looking hard at Britain as a manufacturing base.

"It is quite likely they will put up factories and start manufacturing in Europe," said Mr Collis. Matsushita already manufactures Panasonic vacuum cleaners in Spain, and officials at the company's British offices say that there is no doubt more appliances will be made overseas. Microwave production starts next month in its Cardiff factory.

According to Mr Anders Scharp, president of Electrolux, British manufacturers have little to fear. None of the conditions exist under which the Japanese usually undertake overseas ventures.

First, the Japanese home market is relatively undeveloped. While refrigerator technology is well regarded round the world, Japanese manufacturers have only minor interests in cookers and dishwashers. Japanese washing machines, Mr Scharp said, "are lousy and not saleable at all in Europe."

Above all, establishing greenfield operations in mature European markets would be risky and expensive. Takeovers seemed unlikely. "The Japanese are not used to buying companies. It is not in their culture," Mr Scharp said.

However, takeovers are very much in Electrolux's culture, and the Swedish group has been pinpointed as another potent threat to the UK industry.

Having acquired Zanussi of Italy and White Consolidated of the US in the recent past, Electrolux has been busy restructuring. Its Luton microwave venture is only one element in a plan which aims to centralise European manufacture of specific components and appliances in specific locations to yield the maximum benefits of scale.

As Mr Ramsbottom of AGB asked: "What will happen when that sleeping giant wakes up?"

Chances are that one effect will be even greater pressure on manufacturers' margins. While the efforts of retailers in the open marketplace have helped to boost unit sales, their efforts in negotiating with suppliers have severely restricted the producers' profitability.

The bulk buying and merchandising style of groups such as Dixons/Currys, Rumbelows and Comet are spreading rapidly through the retail trade, and recent estimates suggest about 40 per cent of all electrical goods are now sold through multiples.

The result is that in real terms retail prices of many electrical goods are no higher than three years ago. Some are markedly lower—microwave ovens, for example, personal stereos and video cassette recorders.

Christopher Parkes

Into a bigger league

TWELVE MONTHS AGO Trevor Barker was a north country accountant running a smallish Huddersfield-based cloth concern called John Crowther that produced a turnover of just over £10m.

A year on Mr Barker now sees himself as more than a north country accountant—"my skill lies in putting things together, not in running them." He has become a power in the textile industry.

In the intervening period he has put together a group that has become one of the major concerns in the industry. John Crowther had a turnover of £83m in the first half of last year but Mr Barker says that "on an annualised basis we are now running at about £300m a year."

A rash of turnovers has taken the group out of the small-fish pool, and into a much bigger league.

It cannot compare with David Alliance's Coats Viyella or Sir Christopher Hogg's Courtaulds, both of which have sales of more than £1.5bn. But it compares very favourable with Tootal (£380m) and Dawson International, the Pringle and Barrie knitwear people from Kinross in Scotland (£288m). The Crowther action year started with a bang. Last October Crowthers joined forces with Weavercraft, a carpet concern run by a long-time friend, Michael Abrahams, and simultaneously took over Carpets International, the slumbering giant of the British carpet industry.

From then on he gathered speed. Rosenda, a Blackburn-based children's clothing concern, was the first, in January, for £1.6m. In March he and Abrahams, now working as a small team, spent £45m on MCD, a leading distributor of floor coverings, and WW, a clothing importer and distributor.

In June, showing a predilection for companies with letters, it was back to pennies rather than pounds with the broadloom carpets distribution business of KCI, a subsidiary of Interface, the company from which he had bought Carpets International earlier.

The same month A. J. Gelfer, northern manufacturer of hosiery, hats and ties, which had only recently merged with hosiery concern David Dixon, joined for £30m and in August the UK and German operations of swimwear concern, Speedo, were bought from the Australian parent, along with another children's wear concern Maydells Manufacturing, and, last of all, White Heather Floor Coverings was acquired from Courtaulds.

Such activity would make even practised practitioners of the takeover art dizzy and there is now evidence that the process of absorption has brought problems. The pace has been so hectic that inside Michael Abrahams' Leeds office no one has had the time to take the Cellophane wrapping and John Lewis price tags off the lampshades.

More serious evidence of problems surfaced when Stuart Hollander was recruited from Coats Viyella to be chief executive of the clothing division only to depart within weeks. The contracts of Harry Turpin, the York accountant who had built up David Dixon, and Ben Steen, who had been chairman of Gelfer were terminated early in October.

Barker has now drawn up a management team in which a four-man group board oversees long-term and strategic planning and devolves day-to-day running to four divisions and to a nine-strong executive board.

PROFILE

John Crowther

Cloth, the original basis of the company, is the smallest of the divisions, contributing £14m on an annualised basis to group turnover. Clothing is the largest division, with £110m, distribution next with £95m. Carpets chips in £85m-£90m.

Barker and Abrahams are the core of the holding company board, together with Graham Waldron, who came with MCD, and Joe Smith the finance director.

For the moment Barker himself is looking after the clothing division while the jigsaw, which includes some 40 manufacturing sites, is put together. Once this has been completed he will hand over to a chief executive. Because of its importance this division has three other executive board members.

Distribution, too, has three executive board members, while carpets has two and cloth just a managing director.

The intention, according to Mr Barker, is to create a major UK group based on textile-related products. The strategy has been to re-structure the carpets industry, by putting Carpets International and Weavercraft together; go into distribution as an essential adjunct; and enlarge clothing manufacture. These developments, he says, have broadened the base of the group and provided a stream of steady earnings.

The build-up to Crowthers' present position began six years ago when Mr Barker, then 45, received a call from Joe Hyman, one of the legendary figures of the 1960's textile industry, to see if he would look at Crowthers' figures.

Mr Barker liked what he saw, despite the fact that the company was losing money. Hyman had done a lot of good things, such as putting in new machinery but the textile recession had taken its toll. In 1982 he completed the sale to Trevor Barker.

For three years Barker concentrated on eliminating losses and beefing up the management but when he and Michael Abrahams got together again—they had first come together as young businessmen in Leeds some years earlier—Crowther was still very much a small concern.

The last published figures show that Crowther has doubled its pre-tax profit to £3.65m in the first half of this year. After the inclusion of the new concerns the figure at the end of the year should be around £14m.

The intention, in the words of Barker, is for Crowthers to become a "big force in textiles." "We are now setting out on the path to becoming a major name in the clothing and carpet world. To achieve that we have to be identified as a name."

The first step, after the management restructuring, towards achieving this has been to give the group a corporate identity under the name Crowthers. A new logo has been commissioned and the company will focus on this group identity.

He goes on: "The retail clothing market has altered dramatically in the last five years. Individual retailers have gone and been replaced by a small number of mass sellers. There are five or six major groups some of which have lots of subsidiaries under different names. These retailers have found it is easier to buy at home than have long supply lines from the Far East.

They are increasingly starting to order branded goods from the manufacturer. Clothing manufacture has traditionally been carried on by a small company with 100 girls which produced goods on which someone else's label could be sewn.

Now they want well designed, well-made clothes with strong brand names. Coats Viyella has shown what can be done with its Viyella range and is moving into clothes with Viyella. But few companies are doing this in clothing and we aim to put Crowthers in this market.

Trevor Barker: "My skill lies in putting things together."

"We are big in knitwear, children's wear, sports goods, men's trousers and have an important share of small but interesting sectors such as caps, hats, ties and gloves.

"We still have market gaps to fill, especially in ladies outfits and there is no tailoring in the group, a most difficult market to get right. But we will find someone to join us to complement our team."

The inevitability of further acquisitions is obvious. Michael Abrahams admits that the main board may need to be enlarged and refashioned to cope with further acquisitions. "The trick is not growing quickly," he points out, "but growing sensibly. We have a highly organised team that can cope with the system. In our divisions, especially carpets and distribution there is strong growth. MDC is growing at over 20 per cent a year. In many other areas there is potential for good organic growth."

No one knows and admits his limitations more openly than Trevor Barker. He accepts his great strength is putting things together. He once said: "I am not a good manager. Once I have completed the restructuring, companies are much better run by professional managers than me."

That view is about to be put to the test. If there are to be more acquisitions then Barker will not want to be dissipating his time and energies running one or other division.

He is aware of this. "When we go for a big acquisition that will require the full-time of Michael Abrahams, Graham Waldron and myself. We have channelled our efforts so far in the right directions and generated a lot of inherent growth. All we are waiting for now is the right moment to take Crowthers another big step forward."

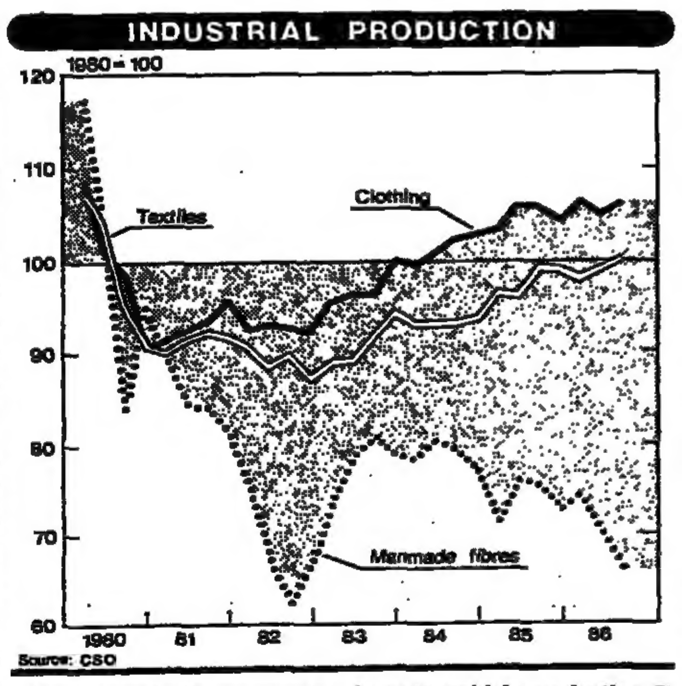
Anthony Moreton

Textile and clothing industry

A new lease of life

THE BRITISH textile and clothing industry is alive and well. In the last four years, after coming through the worst recession this century, it has reorganised into a highly market-oriented sector, capable of meeting the threat of foreign competition with assurance, and supplying the fashion needs of the consumer in the shops.

At ICI Fibres, for example, Mr John Lister, who has just retired as chairman, points out that productivity per man at the company's UK polyester plants has been brought up to a par with that at its West German works in Oestringen. Similar claims could be made by other leading producers.



A feeling of apprehension is evident in some medium-sized companies. The confidence of many of these was badly dented in the years between 1979 and 1983, so that they are constantly looking over their shoulders for the approach of the next textile cyclical downturn. Yet this concern may no longer be appropriate. Mr David Buck, a leading analyst in the industry disputes the importance of the traditional textile cycle which he claims "is now neither traditional nor cyclical." What matters for the industry, he believes, is the external rate for sterling.

The reorganisation which has taken place has led not only to increased profitability at companies such as Courtaulds, Coats Viyella, Tootal, Dawson International and J. Crowther—the latter a rising force in the industry—but also, in the words of Mr Alan Wagstaff, chairman of Tootal, "good quality profits."

That quality stems from the market-led approach now common throughout the industry, and from the ability of the industry to meet the demands of fashion.

The Western European retail market, in particular, and the American to a lesser extent, have moved away from former reliance on two selling seasons; four is common now, six not unknown.

This switch of emphasis demands short, sharp production runs of clothes and a new approach to design. The industry has had to become fashion and design aware at the same time as it has had to invest heavily in new machinery capable of producing those designs at an economically commercial cost.

The hosiery industry, for instance, has long had the ability to produce stockings and tights in the fashionable designs incorporating bows and polka dots and other motifs. But until Courtaulds Hosiery and Pretty Polly brought in new Japanese machinery they were unable to do so at the right cost. "Patterned, coloured tights were not only the fashion success of 1986 they also helped keep imports at bay.

The industry is investing heavily. Coats Viyella is working on a scheme to computerise its selling and production of carpets; Crowthers can change carpet designs at its Kidderminster plant without stopping the machinery; Courtaulds has a piece of robotic machinery under wraps that can handle an essentially unstable item, such as cloth. This represents a major breakthrough for the industry.

Such investment is essential if the industry is to remain an important UK manufacturing sector. Textiles and clothing now employ about 480,000 people, equivalent to 9 per cent of manufacturing employment. That is some 200,000 more than in motor-vehicle production. It has a turnover of just over £12bn, with a value added of over £4.5bn.

Activity rates fell last spring as imports rose, leading to fears that the industry was moving into a downswing in its cycle. The check to growth proved temporary, even through some manufacturers such as Dawson had to introduce some short-time working in the autumn of last year. The industry, generally, picked up after the summer holidays, however.

Renewal of the Multi-Fibre Arrangement (MFA), the international agreement operated under the aegis of Gatt (the General Agreement on Tariffs and Trade) after a series of all-night sittings in Geneva in high summer had provided an earlier boost.

Strong pressure had been exerted on Gatt over the previous 12 months to bring the MFA to an end altogether and when it became obvious there would be a further extension the low-cost Far Eastern producers fought hard to get greatly increased access to Western markets.

The outcome of the Geneva talks was to renew the agreement for a further five years on terms much more favourable to the West than to the low-cost suppliers. This lifted some of the pressure from European producers.

They had to come to terms, however, with a weakening of the US dollar, strengthening protectionist forces in Washington. Europe feared that if America blocked the entry of cheap imports these would be diverted to Europe.

Eventually, President Ronald Reagan fought off the protectionist moves but the overturn of the Republican party in the November senate elections has brought fresh fears that the Democrats might attempt to restore a degree of protectionism later this year.

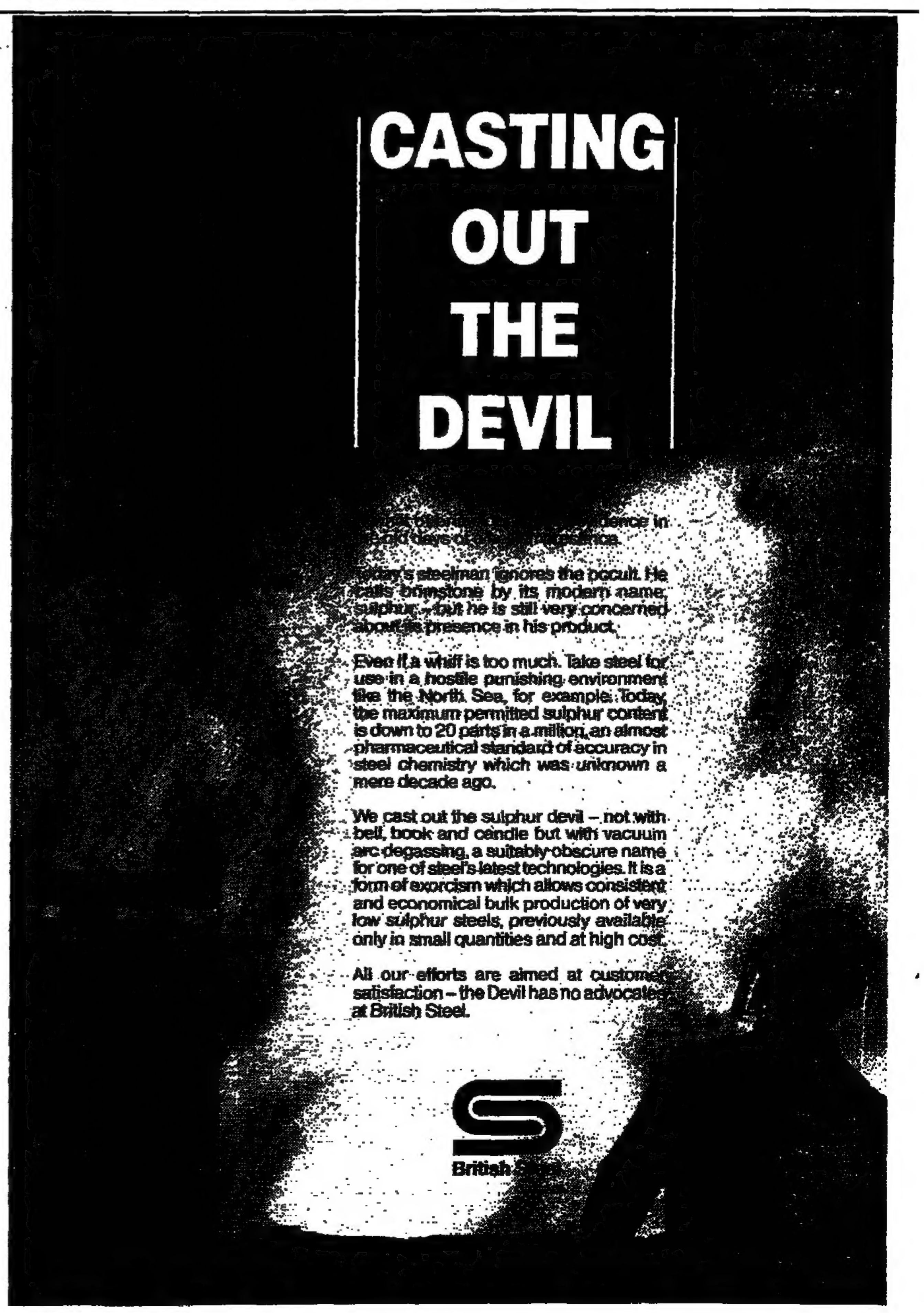
Mr David Alliance, chief executive of Coats Viyella, which featured in two major takeovers during the year, has always maintained that Britain can produce fabrics at prices comparable with landed prices from the Far East. In the past two or three months, however, there has been some evidence that the major chain stores are returning to the Far East for supplies of clothing, suggesting that prices there are weakening.

However, in textiles the bulk—73 per cent—of imports come from Europe and are little influenced by changes in the dollar.

This is not the case in clothing, according to Mr Norman Sussman, president of the British Clothing Industry Association. In this sector the sterling-dollar ratio is crucial and any weakening of the dollar immediately makes far eastern goods more attractive since most contracts are drawn up in the currency.

Sterling's exchange-rate level against other European currencies has by contrast been of considerable assistance to the industry and, according to Mr Harry Leach, president of the British Textile Confederation, "bodes well for our exports to Europe over the coming months. There is, however, a need for stability, he argues which would be met in part if the UK were to join the European Monetary System."

Anthony Moreton



Property

Significant changes ahead

CHANGES will take place in the way the property industry does its business over the next few months that will have a profound effect on its fortunes. Moves are afoot which will at once create new conditions of flexibility, and narrow its options.

Firstly, the drive to increase the liquidity of the industry will open up the possibility of investment in smaller chunks of funds than is the present practice. Early in the year trading should start on the Stock Exchange in property income certificates – Pincs – which will enable investors to take a share in the rental income of an individual building, coupled with participation in a management company set up to run the building in question.

Later, subsequent to the enactment of the Financial Services Bill, trading in another single property vehicle, the co-ownership trust, should also start.

At this stage nobody knows whether this new market in unitised property will attract the flow of funds and draw in the secondary trading which will provide new financial backing for the industry. And, even if all works as smoothly as the sponsors hope, the changes will be gradual in their effect.

But there will at any rate be a new element in property investment that could eventually reduce dependence on a relatively small number of large institutions for the finance needed to support ventures costing upwards of £20m.

The anticipated changes in the Use Classes Order, which categorises the nature of a property on any given site as offices, industrial or other, is the second development affecting the industry. In recent years these categories have become too rigid for the needs of both owners and tenants. The changes will allow a more flexible mixture of uses on a site, mixing office accommodation with industrial buildings, for example.

To some extent, depending on the local authority, there has been a *de facto* change in the Use Classes Order anyway. Still, the formal regulatory change will allow developers a greater degree of control over what they can put up and where they can put it up. The effect is likely to be most apparent in the further spread of business and science parks, where buildings will increasingly be fitted out to meet the specific needs of tenants, and in changes to industrial estates.

Such financial and planning changes take place against the background of a debate about shaking up the whole planning process and of Government plans in some cases to bypass it altogether.

One side of this is welcomed by the industry: any move, it will argue, that shortens the process is bound to be a good one.

Hence it seems relaxed about Department of Environment thinking on the reduction of the planning power of the counties, and a corresponding increase to be afforded to district councils. One planning tier would effectively be removed.

The industry is also likely to be relaxed about, and ultimately willing to exploit, the Government idea of setting up development corporations in provincial centres. They would not have funds but they would have planning power at the expense of the local authority.

In these pre-election days, however, there is a distinct difference between what the Government is prepared to allow in city centres and what it will allow outside. Concern to protect the Green Belt has led the Department of the Environment to the decision that all planning applications involving retail space of more than 250,000 square feet will be called in for scrutiny.

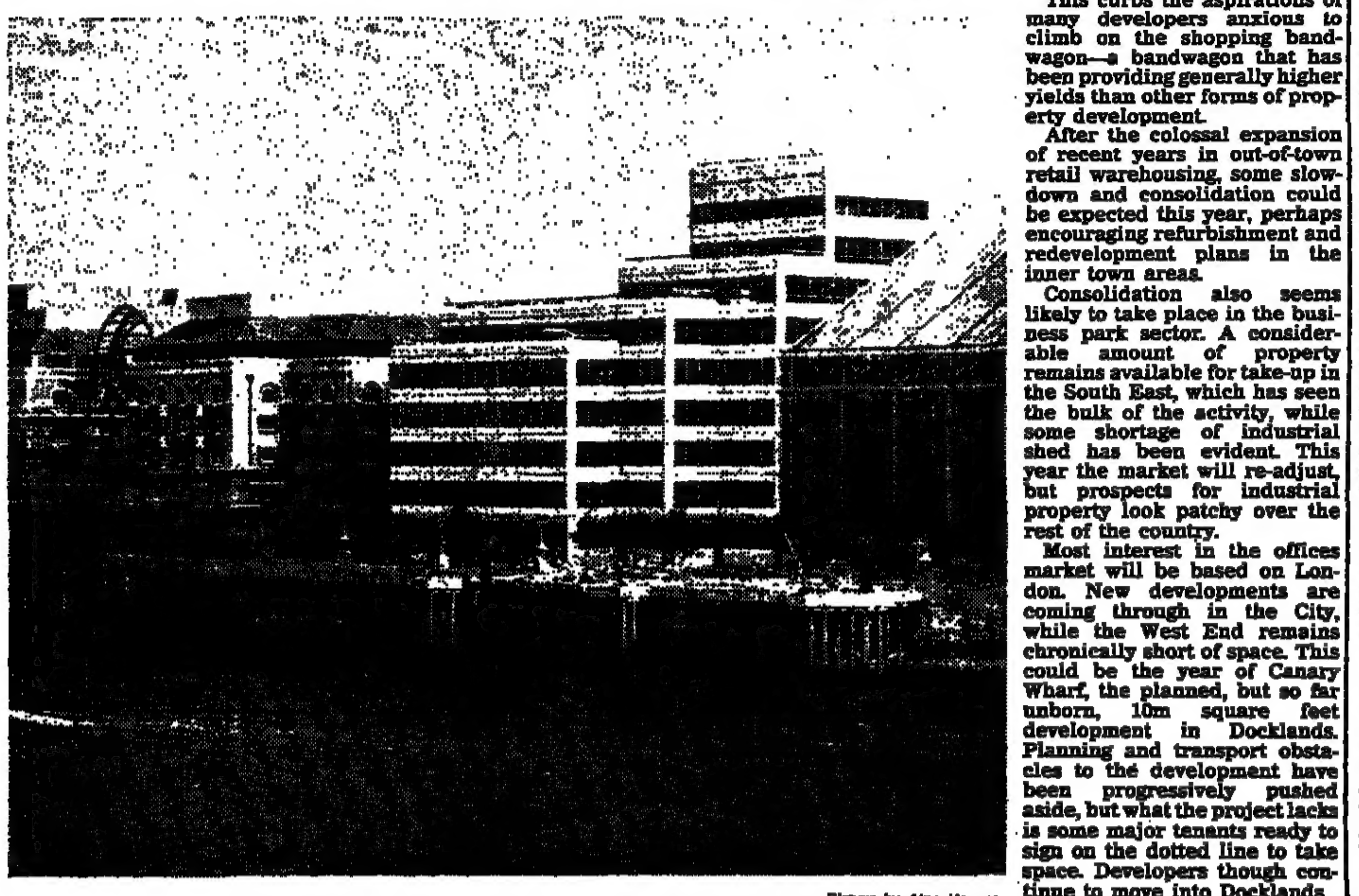
This curbs the aspirations of many developers anxious to climb on the shopping bandwagon—a bandwagon that has been providing generally higher yields than other forms of property development.

After the colossal expansion of recent years in out-of-town retail warehousing, some slowdown and consolidation could be expected this year, perhaps encouraging refurbishment and redevelopment plans in the inner town areas.

Consolidation also seems likely to take place in the business park sector. A considerable amount of property remains available for take-up in the South East, which has seen the bulk of the activity, while some shortage of industrial shed has been evident. This year the market will re-adjust, but prospects for industrial property look patchy over the rest of the country.

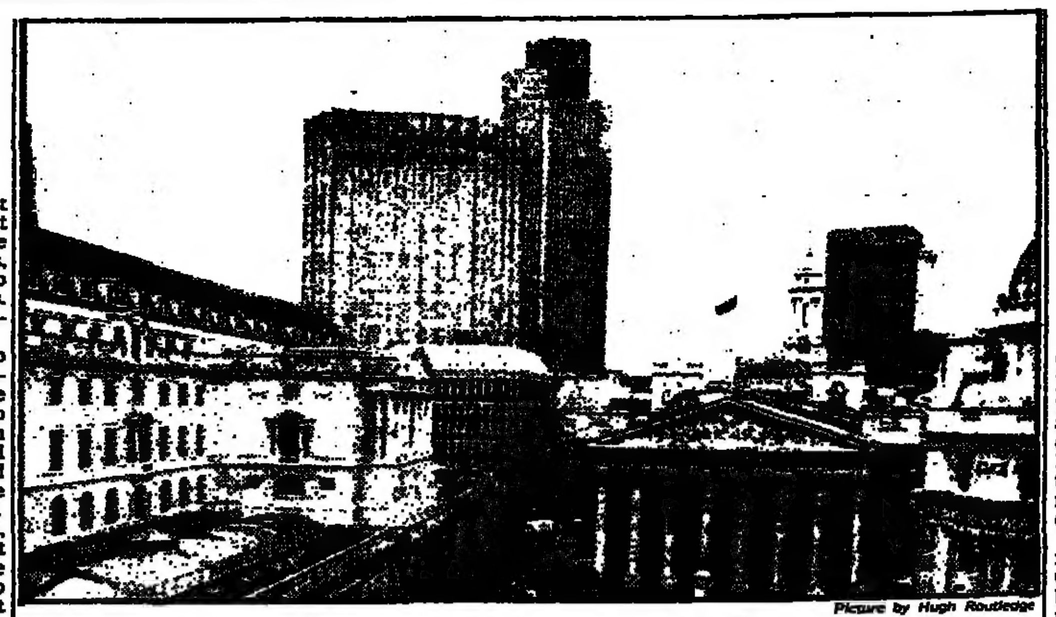
Most interest in the offices market will be based on London. New developments are coming through in the City, while the West End remains chronically short of space. This could be the year of Canary Wharf, the planned, but so far unborn, 10m square feet development in Docklands. Planning and transport obstacles to the development have been progressively pushed aside, but what the project lacks is some major tenants ready to sign on the dotted line to take space. Developers though continue to move into Docklands

Paul Cheeseright



Picture by Alan Harper

London Bridge City, among the newest developments along the Thames waterfront



Picture by Hugh Routledge

The Bank of England and in the background the NatWest tower

Banking

A busy agenda

THE UK banking industry's agenda for 1987 is a busy one, though many of the items on it are similar to those of 1986: further work on the Third World debt problem, coping with the impact of a fast-changing market and deregulation, and worrying about whether the UK economy can keep on an upward path for another 12 months.

In London, 1987 will provide the testing time for banks which took the opportunity of Big Bang to set up large new securities trading operations. If, as seems likely, most banks have decided to give it a year before deciding whether these operations can be made to work profitability, executives will be facing decision time towards the end of the year, after the first anniversary of Big Bang on October 27.

The early months of the year will be a testing time as the clearing banks and the merchant banks seek to justify the enormous investments they have made in investment banking.

London's post-Big Bang experiences will be of key interest to the international banking community because of the much greater degree of financial liberalisation that has occurred in the UK than in the world's other important banking centres, notably Japan and the US, which still do not allow banks to participate fully in the securities business.

Although 1987 will produce the usual expectations of banking law reform in the US, few people are predicting any big steps towards liberalisation. The change in the political balance in Congress after November's mid-term elections has reinforced the position of the Democrats, usually the most anti-bank party. At the same time, the Boesky insider trading scandal has done little to improve banks' chances of being allowed to deal in corporate securities. The most they may hope for is a move by the Federal Reserve Board to permit them to open limited stockbroking operations.

Although the financial troubles of Less Developed Countries pose a smaller threat to the banking system with every year that passes, thanks to the steady growth of bank reserves, their $500bn debt problem seems as intractable as ever.

Early in the new year, international bankers will be signing a new $7.7bn deal to help Mexico out of its latest squeeze. But though this looks like a welcome move, bankers will be wielding their pens with deep misgivings: are they merely throwing good money after bad, and if Mexico can wring billions of new dollars out of its creditors, what about Brazil, the Philippines, Chile, Argentina and the rest of them?

Time has already shown that there is no final solution to the debt problem, only stopgaps. And in the year ahead it seems likely that bankers will continue to talk and worry about it, but do the minimum necessary to prevent it exploding in their faces. This would entail advancing new money where there is no alternative, and gradually adding to their loan loss reserves.

Meanwhile, though, alternative means of reducing the debt burden will continue to make a small but growing contribution: the conversion of loans into some form of equity interest in the debtor countries' economies, and the trading of loans among creditors as they shake their exposures down. Neither of these will make a big dent in the problem, but every little counts.

Ironically, bankers will probably find themselves most heavily preoccupied with a quite different debt problem: that of the US whose burgeoning foreign trade deficit has transformed it into the world's greatest debtor in the last two years.

The coming year is certain to clarify the worrying implications of the immense obligations the US is piling up abroad, and with which bankers will be deeply concerned in two ways. One is over the impact of the deficit on world markets: the value of the dollar and the level of US interest rates. The other is over their role in arranging for it to be financed: it is possible that by the end of this year the US will be forced to turn to foreign creditors for help, as President Carter was in 1979.

Debt problems, though, are likely to take second place in most senior bankers' minds to the much more challenging task of ensuring that they keep their institutions at the forefront of change.

Similarly in Japan, the prospect of deregulation looks remote so long as there is no change in the US, though more foreign banks may be allowed to operate indirectly as securities dealers. In the reverse direction, Japanese banks will continue their inexorable growth abroad and fuel apprehension in the West about their intentions.

Barring a big setback in the world economy, bankers expect 1987 to be another profitable year, though earnings will be ever harder to come by as intense competition compresses margins on loans, capital markets activities and fees. In the UK, the retail banking market will get tougher as building societies start to exercise their new powers to provide banking-type services, including unsecured loans.

Banks will also remain under pressure from their regulators to boost their capital resources, further adding to their costs, though with luck banks should not have to set aside such large loan loss provisions as in recent years.

Apart from the Third World debt, the worries will be the shipping, farming and energy industries, whose weakness will trigger more loans losses. Among particular banks, the fate of two prominent ones will be of particular interest.

Will Bank of America have the strength to remain independent, or will it be taken over by First Interstate Bank, its ambitious Californian rival? And what does the future hold for Standard Chartered Bank of the UK, whose successful repulse of Lloyds Bank's hostile bid last summer seems to have left it vulnerable to other predators?

David Lascelles

Insurance

Key question looms

ONE QUESTION looms larger than any other over the English-speaking world's insurers as they leave 1986—a year of recovery—behind them. Will 1987 see a return of the vicious cyclical price-cutting that tipped companies in North America—the world's biggest single insurance market—into unprecedented losses just two years ago?

For some of the UK's big five composite insurance companies the issue is crucial. It is especially so for the Royal Insurance Group, which in 1985 drew 46 per cent of worldwide premium income from the US—and for General Accident, where the figure was 40 per cent. (For Commercial Union it was 38 per cent, but falling.)

Such companies have been making strides to bolster their non-cyclical life business (for instance, the purchase by the Royal and GA of UK estate agencies as an alternative distribution arm, or Royal's 1985 acquisition of Lloyd's Life). But no one can neglect the impact of the US—even Guardian Royal Exchange and Sun Alliance, both of which have a much smaller exposure at around 11 to 13 per cent in 1985.

The background for 1987 is the euphoria of the third quarter of last year. It saw one domestic US insurer after another turn in results for the first nine months that were almost embarrassing in their jauntiness. Fireman's Fund, the California-based general insurer: pre-tax profits up 168.2 per cent. Chubb, based in New York: up 152.2 per cent . . . and so it went on. Royal Group, the US subsidiary of Britain's biggest composite, capped it all with a 6,672.7 per cent leap.

Therein lies the rub. Such results often serve only to deepen the cynicism felt about the sector by British investors. The year 1986 saw a turn-around in profits in the US—fuelled by premium rate increases in commercial lines dating back to autumn 1984—but it came after more than a decade of adversity.

By last autumn, analysts at Warburg Securities, one of the leading insurance research houses in London, were already describing the recovery story as "tired."

Such a view is almost certainly too pessimistic. It rests on a theory of historical inevitability, saying that we shall see—perhaps in late 1987—the beginnings of the same down-turn in revenues that started in 1979. Then, high interest rates had pushed up the investment returns that companies could earn on their reserves—and the historically high rate of return on capital sucked in the so-called "innocent" insurance and reinsurance capacity. Competitive price-cutting followed, right through to 1983, economic recovery in the US pushed up claims—and the 1984 collapse resulted.

Will it happen again? Warburg says "yes"—based on an analysis showing a 12 per cent increase in the US general insurance industry's capital base in the first half of last year. But other voices—notably at the Royal, but also at leading US analysts such as Salomon Brothers and First Boston—say no (or at any rate not in 1987, and not so dangerously).

"We do not believe a price war is likely in the near future," said Salomons last month (though it has said commercial property-liability premium rates are maturing, albeit at high levels). The industry's ability to do better in the next down-turn may, however, be determined by such technicalities as the adequacy of their outstanding claims reserves.

Federal tax reforms in the US, and the crisis over soaring claims against liability insurance, all apparently led US operators to bolster their reserves recently—but that is in an industry which many commentators believe has been historically under-reserved by perhaps 10 per cent. And few analysts would put too much money on the possibility that moves towards reform of America's tort laws will make in the short term a big impact on reducing the industry's burden of liability claims.

Not that the shape of North America's general insurance cycle is the only issue. In the less competitive UK, where the cycle is far less pronounced, there are two other big question marks. Will the new Financial Services Act produce a profound shake-up in the marketing of life assurance, and sound the death-knell of the independent intermediary? And will the Government-appointed Neill Inquiry—expected to report this month—prompt the decade's second big regulatory shake-up at Lloyd's of London.

The argument about life assurance is that new investor protection requirements will limit the commissions paid by life offices to their agents. But, this reasoning runs, it will simultaneously impose tests of capital adequacy, and costs such as compulsory professional indemnity insurance, which the intermediaries cannot bear. So, this spring, the big Scottish life offices, plus English life insurers like the Norwich Union, are poised to begin a campaign to save the small independent agent.

At Lloyd's, the process of divestment, by which brokers must sell their syndicate managing agencies before 1987, has only just reached completion. A new regulatory effort, to draw up rules for the registration of Lloyd's brokers, is about to begin. But the Neill inquiry is already widely expected to produce fresh proposals—one possibility being a requirement for managing agents, which manage the underwriting function, to separate off entirely from members' agents, who look after the affairs of the market's 30,000 underwriting members.

Nick Bunker

Profile: British and Commonwealth Shipping

A new era at B&C

THE TRANSFORMATION at British & Commonwealth Shipping (B&C) has been as remarkable as it has been rapid. In just over a year a sleepy investment holding company has been transformed into an aggressive new force in the field of financial services.

The new era at B&C owes much to the arrival of Mr John Gunn, former head of money broker Exco International, 14 months ago as a director of the company, and his elevation last October to the post of chief executive.

Mr Gunn seems set to continue the rapid-fire series of deals which have marked his early months at B&C. But the most intriguing aspect of B&C's development in 1987 and beyond will be just how broad his ambitions are.

Financial services has been the chosen sector for expansion so far but B&C's ambitions clearly extend beyond this. Equally interesting will be the sectors within financial services which are developed.

Mr Gunn has always expressed a wish to avoid the mainstream areas affected by "Big Bang", the deregulation of the City, but he could be tempted in if some the newly-created financial groups run into trouble.

B&C took its current name in 1955 when two rival steamship companies, The Clan Line Steamers and The Union Castle Mail Steamship Company were merged.

Under the controlling hand of the Cayzers, B&C moved into air transport, banking, fund management and a wealth of unrelated but often shrewdly-chosen investments.

One of these investments was Mr Gunn himself, or rather Exco International, the money broker he set up in the late 1970s.

Exco became one of the "big four" UK houses which dominate the international world of money and foreign exchange broking. Last year, however, Mr Gunn fell out with the rest of the board over the scale of the company's expansion. His ambitions were not matched by those of his fellow directors and he quit.

Performance

It took little over a month for Mr Gunn and B&C to renew their earlier close links and he was invited onto the B&C board.

B&C had always put in a solid profits performance but in the eyes of many analysts it was more akin to an investment trust than a dynamically managed conglomerate. This City view was reflected in the share price which was below B&C's asset value per share.

B&C listed no fewer than 60 subsidiaries and associates in its annual report. The associates, over which it had no direct management control, contributed more to profit than the subsidiaries, which reported directly to the B&C board.

In 1985, the year in which Mr Gunn joined (but too late for him to have an impact on performance) pre-tax profits rose from £66m to £77m. Turnover rose from £376m to £402m.

The reorganisation which had begun much earlier at many other companies was delayed at B&C because it was effectively shielded from the takeover threat by the Cayzer family holding which amounted to approaching 50 per cent.

The past year has seen a stream of acquisitions and new ventures as Mr Gunn has used B&C's strong balance sheet to finance growth. Companies in the fields of commodities, regional stockbroking and leasing have been bought or launched.

B&C has also gone into other areas such as hotels and it has offered to buy out the 55 per cent it does not already own of Steel Brothers, a catering and quarrying group.

The climax of this rapid series of acquisitions was an agreed bid worth £673m for Exco itself. Viewed by many in the City as rudderless since Mr Gunn's departure, Exco had acquired two large overseas shareholders who were happy to accept the B&C offer.

While the Exco deal—if it succeeds—will once again give Mr Gunn control of the company he founded, it is out of line with B&C's previous policy of buying into small companies with prospects of good, if long-term growth. Exco's best years of expansion are probably behind it.

What Exco does bring however is a strong cash flow—to finance further acquisitions or pay more generous dividends to shareholders. As part of the agreement which put Mr Gunn in charge at B&C the Cayzers agreed to allow takeovers to be financed by share issues. The Exco deal alone would dilute their stake to 30 per cent, making it more important for B&C to retain the loyalty of its other shareholders with higher dividend payments.

With no borrowings of its own, £270m of cash brought from Exco's well endowed balance sheet, and with a market capitalisation of £1.2bn, B&C is set to become an even bigger player in the financial services arena.

Charles Batchelor

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